

AEMC

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profile

The Australian Energy Market Commission is responsible for rule making and national energy market reform and development

Change and challenge in energy

Changing economic and market conditions and economic policy settings are an ongoing reality for commodity markets, including those for energy services. Competitive markets continue to provide the most effective means of managing flexible and timely responses to changing economic and policy circumstances. Australia's energy policy and market arrangements are based on the premise that effective competition between energy producers and retailers and, where necessary, effective incentive regulation of monopoly energy network businesses will deliver efficient, reliable and safe supplies of energy and maintain the balance between energy supply and demand over the long term.

To achieve those outcomes through the interaction of numerous decentralised decision makers on the supply and demand sides of our energy markets we need a strong framework. This requires two things. First, appropriately defined market rules, commercial incentives and institutional arrangements. Second, we need market participants to be confident about the way the rules will be developed and applied – today and into the future.

Australia's competitive energy markets have performed well under their institutional arrangements. They have accommodated changing economic and market conditions while maintaining reliable energy supplies at internationally competitive prices. Effective performance by our energy markets can be expected to continue as they respond to ongoing market changes and challenges. However, it will be important to continue to review and evolve our energy market arrangements to ensure that they maintain the resilience to respond flexibly to the significant changes in market conditions and policy settings that are now in prospect.

There have been considerable developments in the Australian gas market in recent years with additional pipeline infrastructure, new sources of gas supply and the introduction of full retail contestability in most States. Coal seam methane has emerged as a significant new source of gas and is increasing competition in the production sector. High international demand for liquefied natural gas (LNG) and increasing demand for gas in electricity generation has also put pressure on domestic gas prices.

A key challenge for the industry is to ensure a fully national and transparent gas market. With the exception of the state of Victoria, which balances gas on its transmission system through a spot market, developments in the gas market have been underpinned by bilateral contracts between major players where the terms, prices and quantities are generally confidential and can vary significantly.



Having acquired responsibility for gas market development and rule making in July 2008, we are now in a position to adopt an integrated approach to converging electricity and gas markets.



The Australian electricity market's recent experience has been characterised by drought constraints on capacity, increasing input costs, a further tightening of the balance between energy supply and demand and an evident requirement for new investment to accommodate continuing demand growth. Planned government policy responses to climate change risk will also have a significant impact on the structure and performance of our energy markets by requiring a substantial reduction in the emission intensity of our electricity generation sector.

Through its energy market rule making and market development roles, the AEMC is well placed to contribute to the ongoing review and reform of our energy market arrangements. In performing all of our work we are guided by the energy market objectives of promoting efficient, reliable and secure energy supplies for electricity and gas consumers.

DR JOHN TAMBLYN
Chairman, AEMC

Q&A

What is the Australian Energy Market Commission?

The Council of Australian Governments (COAG), through the Ministerial Council on Energy (MCE) established the Australian Energy Market Commission (AEMC) in July 2005 to be the rule maker for national energy markets.

What are the key functions of the AEMC?

The AEMC is currently responsible for Rules and policy advice on how best to develop energy markets over time in relation to the National Electricity Market (NEM) and elements of natural gas markets. Our key responsibilities are to:

- Consider rule change proposals that govern energy markets;
- Conduct energy market reviews for the MCE;
- Provide policy advice to the MCE as requested or on AEMC initiative.

Why was the AEMC established?

The MCE established the AEMC as rule maker to launch a new era of transparent and accountable governance for energy markets. The AEMC makes rules which set the operating requirements and obligations for participants and institutions in electricity and natural gas markets.

What are the objectives for national energy market reform?

The AEMC's decision making is guided by the National Electricity Objective and the National Gas Objective. These objectives are to promote efficient investment in, and efficient operation and use of, electricity and natural gas services for the long term interests of consumers with respect to price, quality, safety, reliability and security. These objectives are the highest point of reference for policy setting.

Is the AEMC a federal or state government body?

The AEMC is an independent, national body which is responsible to the COAG through its MCE. The AEMC is a statutory body established under South Australian law and recognised by the laws of all participating jurisdictions.

What is the National Electricity Market (NEM)?

The NEM has been in operation since 1998. It is a wholesale market for electricity supply in the states of Queensland, New South Wales, Victoria, Tasmania, South Australia and the Australian Capital Territory.

It delivers electricity on an interconnected system that stretches more than 4,000 km from far north Queensland to regional South Australia, and includes a sea-bed cable between Victoria and Tasmania. The market is governed by the National Electricity Law (NEL) and the National Electricity Rules. The Rules govern the detail of technical and economic regulation of wholesale and retail electricity markets, and electricity network businesses. The AEMC is responsible for making determinations on proposals to amend the Rules.

Does the AEMC have a role in relation to emerging policies dealing with the implications of climate change?

The MCE has directed the AEMC to conduct a review of electricity and gas market frameworks in the light of new climate change policies. The review focuses on assessing how introduction of the Australian Government's Carbon Pollution Reduction Scheme (CPRS) and its expanded Renewable Energy Target may affect Australia's energy market frameworks. The AEMC is to determine what, if any amendments are needed to those frameworks as a result. It is timely, in advance of these new policies being implemented, to ask whether frameworks need to be amended to ensure that energy markets continue to operate efficiently and reliably in the interests of consumers.

What is the AEMC Reliability Panel?

The National Electricity Law (NEL) requires the AEMC to establish the Reliability Panel which essentially monitors, reviews and reports on the safety, security and reliability of the national electricity system in accordance with the Rules. As expert advisers to the Commission, members of the Reliability Panel play a vital role in making recommendations on arrangements to manage these matters. The first panel started operations in 2006.

What is the Consumer Advocacy Panel (CAP)?

The CAP is an independent statutory body which provides funding to help consumers take part in policy and regulatory decisions on the NEM, natural gas markets and national energy policy.

WHAT IS THE AEMC'S ROLE IN RELATION TO NATURAL GAS MARKETS?

In June 2008 the National Gas (South Australia) Act 2008 was passed. Consequently, the new National Gas Law (NGL) started operation on 1 July 2008, marking the implementation of a major microeconomic reform for the Australian economy.

The NGL is a cooperative legislative scheme developed by the MCE. The NGL brings responsibility for policy and regulation of access to natural gas pipeline services and broader elements of natural gas markets under the national energy market institutions framework alongside National Electricity Market regulation. This means that the AEMC is responsible for developing rules under both the National Gas and National Electricity Laws – bringing consistent regulatory decision making to the energy sector.

Until 1 July 2008, jurisdictional regulators were responsible for approving gas access arrangements for most distribution pipeline services while the Australian Competition & Consumer Commission (ACCC) did the same for transmission pipeline services covered by regulation. The new Law moves all these functions to the AER. The Western Australia regulator, the Economic Regulation Authority will continue its jurisdiction over both transmission and distribution pipeline services.

The Commonwealth, and all states and territories are participating jurisdictions for the purposes of the NGL (Western Australia's application law has not yet been passed).

System and market information will be published on a new national gas market bulletin board to facilitate gas and capacity trading and assist in emergency management.

The implementation of a new national gas market bulletin board and a program to implement a short-term trading market will deliver increased transparency and ease of price discovery in the gas market. Amalgamation of jurisdictional gas market operators and transfer of gas market rule making to us here at the Australian Energy Market Commission will further enhance the national character of the market.

The National Competition Council (NCC) will continue its role for making recommendations on the application of regulation (coverage) in relation to natural gas pipelines.

Australian Energy Market Governance

The Council of Australian Governments (COAG), established the Ministerial Council on Energy (MCE), in 2001 to implement its national energy policy framework.

The MCE's objectives, as agreed by COAG are:

- To provide national oversight and coordination of policy development to address opportunities and challenges facing Australia's energy sector into the future;
- To provide national leadership so that consideration of broader convergence issues and environmental impacts are effectively integrated into energy sector decision making.

The Council comprises Ministers with responsibility for energy within the Australian Government and all states and territories. Under the National Electricity Law and the National Gas Law, the MCE may direct the AEMC to conduct a review into a number of matters relating to electricity and natural gas markets or the Rules for those markets.

In June 2004, COAG endorsed a reform program for the long-term development of electricity and natural gas markets through its Australian Energy Market Agreement 2004 (AEMA). Key reforms

to improve and streamline governance arrangements for the nation's energy sector were the establishment of the AEMC and the Australian Energy Regulator (AER) in 2005. Since the AEMC was established the new framework for the governance of national energy markets, in which we operate, has made good progress and is well underway.

The Commonwealth, State and Territory Governments have united in a national approach to energy policy and the MCE has a reform programme for long-term development of electricity and natural gas markets.

The AEMC is responsible for rule making and market development.

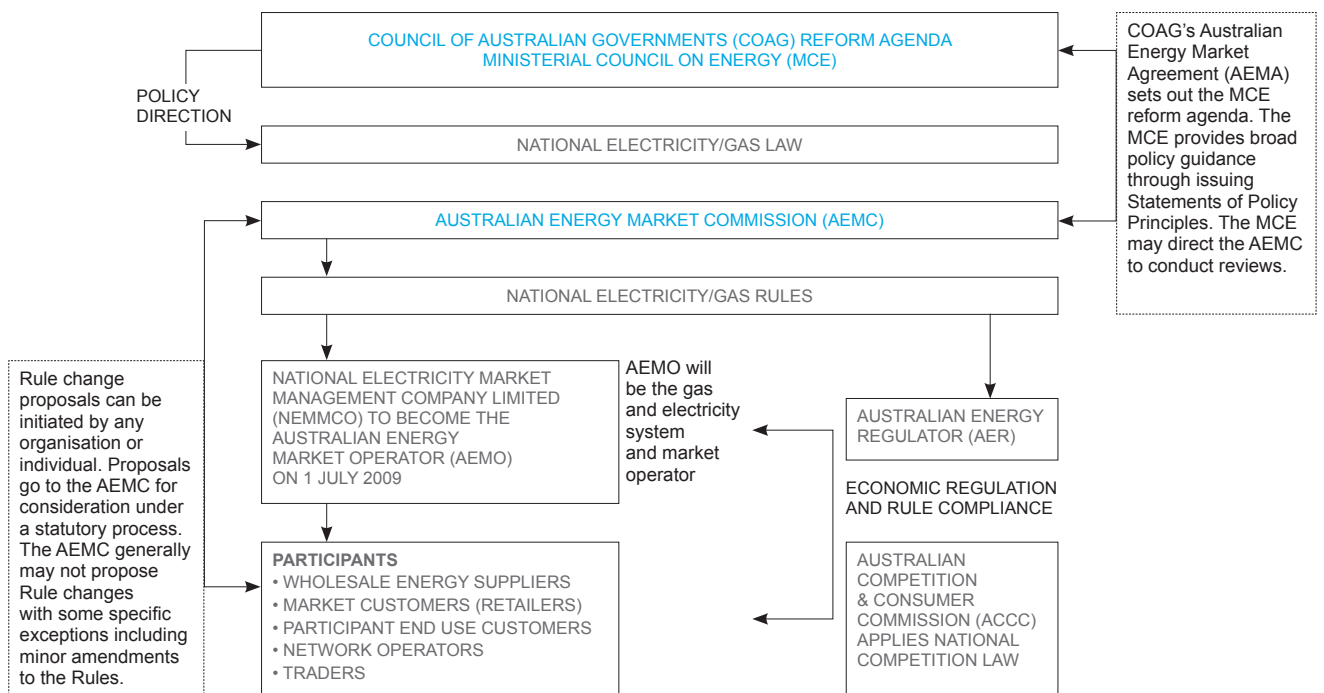
The AER performs economic regulatory, compliance and enforcement functions. It is an independent statutory body and a constituent part of the Australian Competition & Consumer Commission (ACCC). The ACCC is an independent, national statutory body responsible for promoting competition and fair trading and providing consumer protection to enhance the welfare of Australians. The ACCC is responsible for competition law matters concerning energy markets.

A Memorandum of Understanding between the AEMC, the ACCC and the AER sets out arrangements to promote effective cooperation, communication

and coordination between the bodies in performance of their roles. In particular, the MOU seeks to promote early consultation on any rule change proposals on enforcement and economic regulation issues and competition issues.

The National Electricity Market Management Company Limited (NEMMCO) will be replaced by the Australian Energy Market Operator (AEMO) in 2009. It is intended that AEMO will assume NEMMCO's functions as both market operator of the National Electricity Market (NEM) and operator of the power system that underpins NEM operations. In addition to assuming NEMMCO's functions, it is intended that AEMO will assume gas and electricity functions of jurisdictional market operators.

Our consultation with a range of stakeholders from industry and consumer groups has revealed a call for greater clarity, predictability and transparency of the regulatory process and decision making. Everyone needs to know their rights and obligations in order to establish an environment for confident long term investment to meet the nation's needs and we are committed to facilitating that.





Meet the Commissioners

The AEMC has a Chairman, Dr John Tamberly and two part-time Commissioners, Mr Ian Woodward and Mr John Ryan. Two Commissioners are appointed by state and territory jurisdictions and one is appointed by the Commonwealth Government.

John Tamberly

Commissioner Tamberly was appointed inaugural AEMC Chairman in June 2005. His background in the regulation of public utility services includes the positions of Chairman of the Essential Services Commission (Victoria) and Regulator-General (Victoria). Prior to his appointment as Regulator-General, John held senior positions in the Australian Competition & Consumer Commission (ACCC), including adviser to the ACCC on structural reform and public utility regulation and First Assistant Commissioner responsible for fair trading and consumer protection. He was employed by the International Monetary Fund as adviser to the Government of Seychelles (1986-87). Prior to that appointment he held positions in the Commonwealth Treasury and Department of Finance. He holds a PhD in economics (UCLA); MSc (UCLA); MEc (ANU); BCom, Hon. (Melb).

Ian Woodward

Commissioner Woodward was appointed AEMC Commissioner in June 2005. As Commissioner, he chairs the Reliability Panel and the AEMC Audit Committee. He is an Adjunct Professor at INSEAD, the global business school. He is also Program Director and Executive Consultant with the Macquarie Group.

He chairs the Asia-Pacific Partnership, Energy Regulatory and Market Development Forum which comprises energy regulatory and industry leaders across Australia, Korea, China, Japan, India, Canada and the United States. He has extensive experience in senior leadership in both private enterprise and government within the energy industry including the Natural Gas Corporation (NZ), The Australian Gas Light Company, the Australian Gas Association (AGA), and as an adviser to the United States Secretary of Energy. He is an alumni of the University of New South Wales, the Australian Graduate School of Management, University of New England and Columbia Business School.

John Ryan

Commissioner Ryan was appointed acting AEMC Commissioner in September 2008. He is a private consultant providing strategic advice to companies on federal government energy and resource policies. He was previously Deputy Secretary for the Australian Department of Resources, Energy and Tourism. In that role he was responsible for energy market reform, energy and resources development policy, energy security issues and portfolio contributions to climate change policies. He has been Chair of the Governing Board for the International Energy Agency and Lead Shepherd for the APEC Energy Working Group. John was head of the Canberra office of the Allen Consulting Group. He holds a Bachelor of Economics from Monash University and a Master of Economics from the Australian National University.

OPERATIONAL STRUCTURE

The AEMC has three divisions.

Retail, Distribution and Network Regulation Group

Responsible for reviews and consideration of rule change proposals relating to retail markets and the regulation of revenues or pricing of electricity distribution or transmission companies in addition to the regulation of third party access to natural gas pipelines.

Wholesale, Environment and Transmission Group

Responsible for reviews and consideration of rule change proposals relating to wholesale markets; the interactions between the energy sector (electricity and natural gas) and government policies on climate change; transmission; and demand-side participation issues.

Technical and Reliability Group

Responsible for reviews and consideration of rule change proposals relating to the technical operation of energy markets and the interactions between financial and energy markets. The group supports the AEMC Reliability Panel, oversees the theoretical and practical aspects of energy market measurement and provides advice on certain technical standards.

STAY INFORMED AT WWW.AEMC.GOV.AU

The AEMC website tracks the progress of rule change proposals through the statutory rule making process. All submissions received are posted to the website for public scrutiny. Exceptions are made where participants make submissions in confidence. Current versions of the National Electricity Rules and the National Gas Rules are here too. This is where you will find all AEMC publications and information on the work program.

SUBMISSIONS

The statutory rule making process invites submissions on rule change proposals received before a draft determination is published and again before a final determination is made. Information on how to be part of this formal process can be found at our website at www.aemc.gov.au

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AEMC MANAGEMENT

