


Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

Dear Dr Tamblyn 

**TERMS OF REFERENCE – AEMC REVIEW OF ENERGY MARKET FRAMEWORK IN LIGHT OF
CLIMATE CHANGE POLICIES**

At its 13 June 2008 meeting, the Ministerial Council on Energy (MCE) considered the potential challenges for the energy market from implementation of the 20 percent Renewable Energy Target (RET) and the Carbon Pollution Reduction Scheme (CPRS).

As reflected in the meeting communiqué, the MCE agreed to direct the Australian Energy Market Commission (AEMC) to conduct a review of the energy market framework to determine whether it requires amendment to accommodate the introduction of the CPRS and RET. In particular, MCE noted that the review by the AEMC is to examine what adjustments may be required within existing energy market arrangements.

I am writing on behalf of the MCE to outline the Terms of Reference for this task.

MCE direction to the AEMC

Section 41 of the National Electricity Law (NEL) enables the MCE to direct the AEMC to review any matter relating to the National Electricity Market (NEM) or any other market for electricity. Similarly section 79 of the National Gas Law (NGL) enables the MCE to direct the AEMC to review any matter relating to a market for gas, including services provided in a market for gas.

Pursuant to section 41 of the NEL and section 79 of the NGL, the MCE directs the AEMC to conduct a review of the current energy market frameworks and to identify any amendments which may be necessary, having regard to the NEL Objective and the NGL Objective, as a consequence of or in conjunction with the implementation of CPRS and RET. In identifying options for addressing issues raised by these implementations, the AEMC shall have regard to the need for actions to be proportionate, as well as to the value of stability and predictability in the energy markets regulatory regime.

MCE Secretariat

GPO Box 9839 CANBERRA ACT 2601
Telephone: (02) 6213 7789 Facsimile: (02) 6213 6689
E-mail: MCE@ret.gov.au
Web Site: www.mce.gov.au

The review shall provide detailed advice on implementation of any amendments the AEMC considers are required to the energy market frameworks.

The review is to consider both electricity and gas markets in all states and territories.

In conducting the review, the AEMC should consider, where relevant, current and past reviews and rule-changes. The review should also recognise current and foreshadowed reforms to the gas and electricity markets including the establishment of the Australian Energy Market Operator, revised gas access framework implemented by MCE, the establishment of the Bulletin Board and work on the Short-Term Trading Market.

MCE does not anticipate that this review will result in fundamental revision of market designs or impede the effectiveness of the access regimes under the *Trade Practices Act 1974*, but recognises the prudence and potential value of reviewing the ability of the energy markets to meet the climate change challenge, through efficient and timely investment and appropriate integration of renewable and other technologies.

The AEMC is not to review the design of the CPRS or RET, as these are matters being developed through other government policy processes.

Establishment of an Advisory Committee

In tasking the AEMC to undertake this review, the MCE notes the importance of engaging with the energy sector and drawing upon relevant technical expertise.

In this regard, the AEMC is to establish an Advisory Committee comprising representatives from:

- The National Electricity Market Management Company and the Independent Market Operator in Western Australia;
- The Victorian Energy Networks Corporation;
- The South Australian Electricity Supply Industry Planning Council;
- The Australian Energy Regulator and the Economic Regulation Authority in Western Australia;
- industry groups, or representatives, from electricity generators, electricity and gas networks and electricity and gas retailers; and
- Energy end user representatives.

The AEMC is to have regard to the views and advice of the Advisory Committee in the preparation of the AEMC's discussion paper and the interim and final reports arising from the review. The AEMC should convene meetings of the Advisory Committee as appropriate at regular intervals.

Timing and process

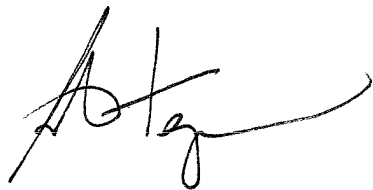
The MCE requires the AEMC to undertake formal stakeholder consultation as follows:

- Release a scoping paper by 30 September 2008.

- Release a 1st Interim Report by 31 December 2008. A copy of the Interim Report is to be presented to the MCE at its meeting in December 2008 prior to public release.
- Hold at least one public forum following the release of the 1st Interim Report.
- Release a 2nd Interim Report by 30 June 2009.
- Provide a Final Report to the MCE by 30 September 2009.

Prior to releasing the scoping paper, a copy should be provided to the MCE Standing Committee of Officials to ensure the scope of the review is consistent with the MCE's intent.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Ferguson', with a long, sweeping horizontal stroke extending to the right.

Martin Ferguson