



## Market development priorities: What stakeholders think

### Strategic Priorities for Energy Market Development review 2013: Summary of stakeholder workshops

**As part of the AEMC's 2013 review of the Strategic Priorities for energy market development, we held three workshops to invite feedback and debate on the priorities proposed in our discussion paper. The workshops were held in Sydney (24 April), Brisbane (29 April) and Melbourne (1 May).**

#### Workshop topics

Each workshop had four sessions:

1. Current issues and developments in the energy market
2. Proposed consumer priority
3. Proposed gas priority
4. Proposed market priority

While a number of specific comments and suggestions were raised, in general there was strong support for the AEMC's proposed priorities.

The points that attracted the most discussion and debate across the three workshops were:

- A need to review the structure of network charges in light of changing demand and increased use of rooftop solar PV;
- Concerns regarding external policy distortions (e.g. the Renewable Energy Target) driving an oversupply of generation capacity;
- The East coast gas market design has generally worked well, but there is a need to consider whether changes are needed given the growth of the market, and in particular the large increase in LNG export capacity; and
- A need for the AEMC to consider the needs and priorities of all types of consumers.

#### Summary of workshop discussions

Here is a combined summary of discussions at all three workshops.

##### Session 1 – Current issues and developments

The strategic priorities review discussion paper raises peak demand trends, the investment outlook, electricity prices, market resilience and competition as the main issues and developments in the national electricity market (NEM). In gas, the main issues raised relate to the shift in supply and demand arising from the development of an east coast LNG export industry.

The main points raised by stakeholders in discussing the issues and developments were:

- There was a view from some stakeholders that environmental and social objectives should be reflected in the NEO and NGO, and feature more prominently in the AEMC's work.
- Conversely, other participants viewed the energy market objectives as being well defined with clear accountabilities, and that the AEMC should focus primarily on efficiency considerations when making rule change decisions and providing advice to the SCER.
- The AEMC should show leadership on policy development of consumer affordability issues. Some stakeholders noted the inconsistency between states in the nature of hardship assistance policies.

## Session 1 – Current issues and developments - continued

- Concerns were also raised about the cost of conflicts and overlaps between regulatory schemes administered by different government and regulatory bodies.
- Several participants expressed concerns regarding external policy distortions (e.g. the Renewable Energy Target) driving an oversupply of generation capacity.
- It was widely suggested that reform of network tariff structures is needed to reflect changing demand patterns and changing use of networks (including the increasing prevalence of rooftop solar PV).
- There were some calls for improved transparency around demand forecasts, and a diversity of views, to help to promote an informed long term view on future demand trends.
- There was discussion of the difficulties of measuring value of customer reliability, and building it into network, and in particular transmission, planning.
- It was suggested that the implications of the differences between electricity and other utilities, in particular its real-time, inflexible nature, were not brought out in the discussion paper.

## Session 2 – Proposed consumer priority

The proposed consumer priority in the discussion paper is “*strengthening consumer participation while continuing to promote competitive retail markets*”. The main areas discussed in the paper are opportunities for demand side participation, promoting competitive retail markets, enhancing consumer representation in policy and regulatory processes and implementation requirements to strengthen consumer participation in electricity retail markets.

The main points raised by stakeholders in discussing this priority were:

- It was observed that this proposed priority appears to focus on households, rather than large users or Small and Medium sized Enterprises (SMEs). Segmenting consumer types and understanding their different issues is important in considering priorities.
- There was a view among some stakeholders that the current market reflects the interests of current market players, and does not easily cater for new types of businesses.
- The focus on consumer protection and consumer participation was generally welcomed.
- Some participants did not consider that the NECF provides a national framework due to differences caused by jurisdictional derogations.
- The AER pointed out the ways in which consumers are already involved in regulatory processes, including on reliability and tariff design questions. They also pointed to the Consumer Challenge Panel and the “Energy Made Easy” website as important initiatives to further improve consumers’ ability to engage and participate.
- Some participants viewed the Power of Choice review as a successful model of AEMC providing policy development leadership.
- There was a suggestion that AEMC should use different language in this priority:
  - consumers are “industry participants” (because many are also generators);
  - it’s not about electricity supply; it’s about “energy service delivery”.

## Session 3 – Proposed gas priority

The proposed gas priority in the discussion paper is “*promoting the development of efficient gas markets*”. The main focus of this proposed priority is on reviewing the adequacy of current gas market frameworks in light of the structural shifts taking place in the market. The interdependence between electricity and gas markets is also considered.

The main points raised by stakeholders in discussing this priority were:

- There was a common view that the market is working in general, and has underpinned a large volume of investment. Going forward we need to make sure the market is well informed and there are transparent forward wholesale trading markets.
- It was suggested that the current east coast gas market design imposes high barriers for new entrants due to a lack of transparency and high transaction costs.
- Long term gas contracts provide investment certainty and it is unlikely that gas infrastructure will be built without them. More flexible arrangements are suited to balancing marginal gas.
- There was some discussion of the differences between the arrangements in Victoria and the other eastern states. Issues raised included the lack of a single reference price

**We are keen to generate as much debate as possible about our proposed strategic priorities.**

**Submissions on our proposed market development priorities are due 27 May 2013.**

in gas (although the development of a supply hub at Wallumbilla is seeking to address that) and barriers to trading across boundaries.

- There was a view that the STTM (in Brisbane) has encouraged innovation and trading, but also some views that the costs of the arrangements outweigh the benefits.
- It was noted that LNG exports are already seeing some producer's link contracts to overseas prices, thereby creating a form of price indexation for Australia.
- Concerns were raised with the lack of pipeline development in some states, although there was a general view that pipelines are built where it is economic to do so.
- It was suggested that this priority needs to explicitly address the role for, and impacts on, small consumers in the gas market.
- The AEMC's [gas market scoping study](#) was widely welcomed, with a number of stakeholders keen to participate. There was a view that there is a need for a longer term market development strategy in gas.

#### **Session 4 – Proposed market priority**

The proposed market priority in the discussion paper is “*market arrangements that encourage efficient investment and flexibility*”. This proposed priority focuses on the importance of a stable and predictable policy and regulatory environment.

- There was a range of discussions about accounting for externalities in the energy market. The carbon price was generally seen as an efficient way to price that externality. There was a view that the AEMC should take greater account of externalities in assessing the long term interests of consumers.
- There was a common concern that there is continued uncertainty on carbon policy and the RET, which affects investment decision-making.
- It was noted that we are seeing a divergence between energy and capacity in the generation market. Some participants questioned whether the current market design would remain appropriate with increasing renewable generation.
- There was a general view that new generation investment is unlikely in the current climate, and it was suggested that there is no financial case for new investment in generation without a contract with a retailer for most of the output.
- It was also pointed out that some generation investment and acquisitions are happening, which suggests the outlook for non-renewable generation may be better than some commentators have suggested.
- Whilst the outcomes of major AEMC reviews (Power of Choice, Transmission Frameworks) were generally welcomed, there is also uncertainty resulting from the long timeframes of reviews and regular changes to the rules – “reform with no end in sight”.
- Some participants noted that ancillary services markets may become more important as wind penetration driven by the RET continues to increase.
- It was suggested that it is more appropriate to talk about “decision-making frameworks” rather than “market arrangements” – this would encompass market signals, the amount and type of regulation, technical issues, etc.

The Commission will consider all points raised, alongside all responses submitted to the strategic priorities review discussion paper, in finalising the priorities. The final report will be published later in the year.

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