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Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce 

I am writing to you regarding the Australian Energy Market Commission (AEMC)'s annual reporting on trends in household electricity prices.

This reporting provides a valuable information source on possible trends in household electricity prices across Australia and the drivers of these trends. The Standing Council on Energy and Resources (SCER) notes the AEMC's delivery of this year's report has been delayed and would request that it be released as soon as practicable in the new year.

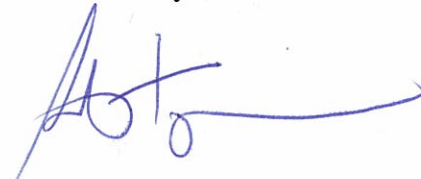
To further improve the AEMC's electricity pricing estimates, Energy Ministers agreed at our meeting of 14 December 2012 to direct the AEMC to provide greater consideration of the full suite of pricing offers in future reporting.

The Ministerial Council on Energy makes this request pursuant to section 6(b) of the *AEMC Establishment Act 2004* (the Act). In September 2011, the Council of Australian Governments created SCER, which includes Ministers responsible for energy. These Ministers comprise the membership of the legally enduring MCE. SCER Ministers responsible for energy are entitled to make requests under the Act.

To guide the AEMC's future reporting on electricity prices, please find attached some revised Terms of Reference to supersede those issued on 20 December 2011.

We look forward to continuing to work with the AEMC on this and other important energy market related matters.

Yours sincerely



Martin Ferguson

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TERMS OF REFERENCE

AUSTRALIAN ENERGY MARKET COMMISSION (AEMC) REPORTING ON POSSIBLE FUTURE TRENDS IN ELECTRICITY PRICES

BACKGROUND

At its meeting of 30 April 2009, the Council of Australian Governments (COAG) requested that the Ministerial Council on Energy (MCE) report on expected electricity price rises for residential consumers over the ensuing three years, by the end of 2009.

The MCE subsequently committed to providing further reports to COAG at the end of 2010 and 2011.

The first report of the tasking was provided by the MCE, while the AEMC, at the MCE's request, delivered the remaining two reports to enhance the independence and transparency of the reporting. Following agreement by COAG the AEMC's reports were made publicly available in order to better inform public debate on electricity price rises and drivers.

Acknowledging the public benefit of the AEMC's reporting on electricity prices, Energy Ministers agreed at their meeting of 10 June 2011, to extend this reporting. As such, the Standing Council on Energy and Resources (SCER), which supersedes the MCE, tasked the AEMC with this reporting on an ongoing, annual and publicly available basis commencing from 2012.

PURPOSE

These Terms of Reference (ToR) are intended to guide the AEMC's reporting so that it can provide sound and comprehensive public advice on the factors affecting residential electricity prices and the possible future trends.

REPORTING STRUCTURE AND PROCESS

The AEMC's reporting should estimate possible future retail electricity prices for a representative set, or potentially representative sets based on consumption levels, of residential customers in each Australian state and territory.

Estimated actual electricity prices paid by these representative residential customers in the financial year immediately preceding the forward estimation period should be used as the basis for estimating prices in the subsequent three financial years. For example, if the AEMC is required to report by the end of 2013, the forward estimation period should cover 2013/14 to 2015/16 with 2012/13 used as the basis for estimation.

In estimating actual electricity prices, the AEMC must reflect both standing offer and market contract prices where practicable. While it is recognised that market contract prices are challenging to forecast due to limited data and their changing nature, the AEMC should seek to provide its best representation of expected forecast market contract prices, particularly in deregulated markets.

Retail electricity prices should as far as possible be broken down into the below and other relevant cost components:

- Wholesale electricity costs;
- Transmission network costs;
- Distribution network costs (including metering costs);
- Retail costs (including margins);
- Costs associated with a carbon price;
- Renewable Energy Target (RET) costs (separating large and small schemes);
- Other costs associated with State, Territory or Australian Government specific policies and programs (e.g. green energy programs and regulatory overheads); and
- Feed-in tariff scheme costs.

The reporting should clearly explain any data limitations and estimation methodologies, noting the different methodologies that jurisdictions use in determining regulated retail prices.

All pricing information should be provided in nominal terms and expressed in cents per kilowatt hour. The accumulated time series data from this reporting should be presented in a consistent and comparable manner.

A national level summary of the above information should also be provided using an appropriate weighted average approach across jurisdictions to determine nationally indicative electricity prices and cost components.

The reporting should include a factual description of the drivers of movement in electricity prices illustrated by the forward estimates for each jurisdiction and at a national level. If possible, analysis and commentary should be provided on the main components underlying any significant price movements in each jurisdiction, with particular attention to the reasons given for large changes in regulated maximum allowable revenues for network businesses. The AEMC should consult with the Australian Energy Regulator on this aspect of the reporting, as appropriate.

The AEMC must consult with jurisdictions during the preparation of its reports including on their methodology, data collection processes and timelines, with a view to maintaining a consistent approach across jurisdictions. This consultation should also ensure that the latest available information, including price determinations, is incorporated in the reporting. As part of this consultation process, the AEMC will release its draft reports to jurisdictions for review and comment.

The AEMC's reports would be released automatically subject to the AEMC providing embargoed copies of its reports to Energy Ministers (through SCER) at least ten days before publication.

TIMELINES

The AEMC must publicly release its reports by the end of the given reporting year and subject to the provision of embargoed copies to SCER as stated above.

These ToR will remain in place for the AEMC's reporting on an ongoing basis until such time as directed otherwise by SCER.