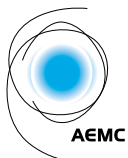


Australian Energy Market Commission

# Annual report 2015/2016





Australian Energy Market Commission  
Level 6, 201 Elizabeth Street  
Sydney NSW 2000

30 September 2016

The Hon Tom Koutsantonis MP  
Minister for Mineral Resources and Energy  
Level 8  
178 Terrace Towers  
North Terrace  
Adelaide SA 5000

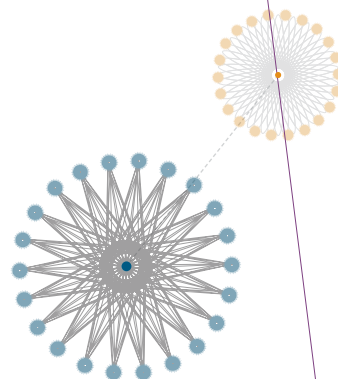
Dear Minister

**Australian Energy Market Commission Annual Report 2015-2016**

I am pleased to present the Australian Energy Market Commission  
2015-2016 Annual Report.

This report is prepared in accordance with Section 27 of the Australian Energy  
Market Commission Establishment Act 2004 (SA).

**John Pierce**  
CHAIRMAN



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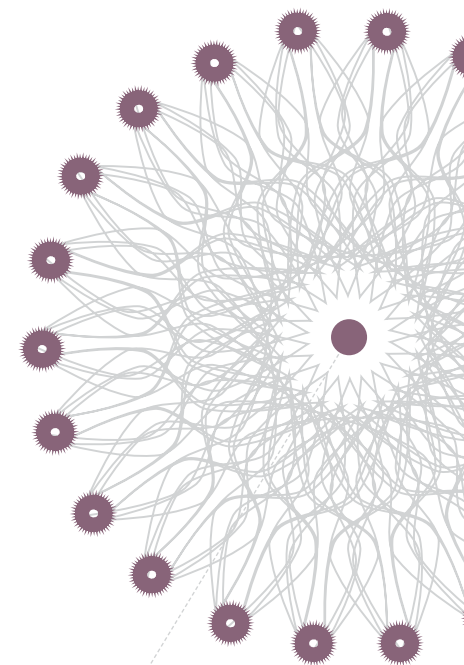
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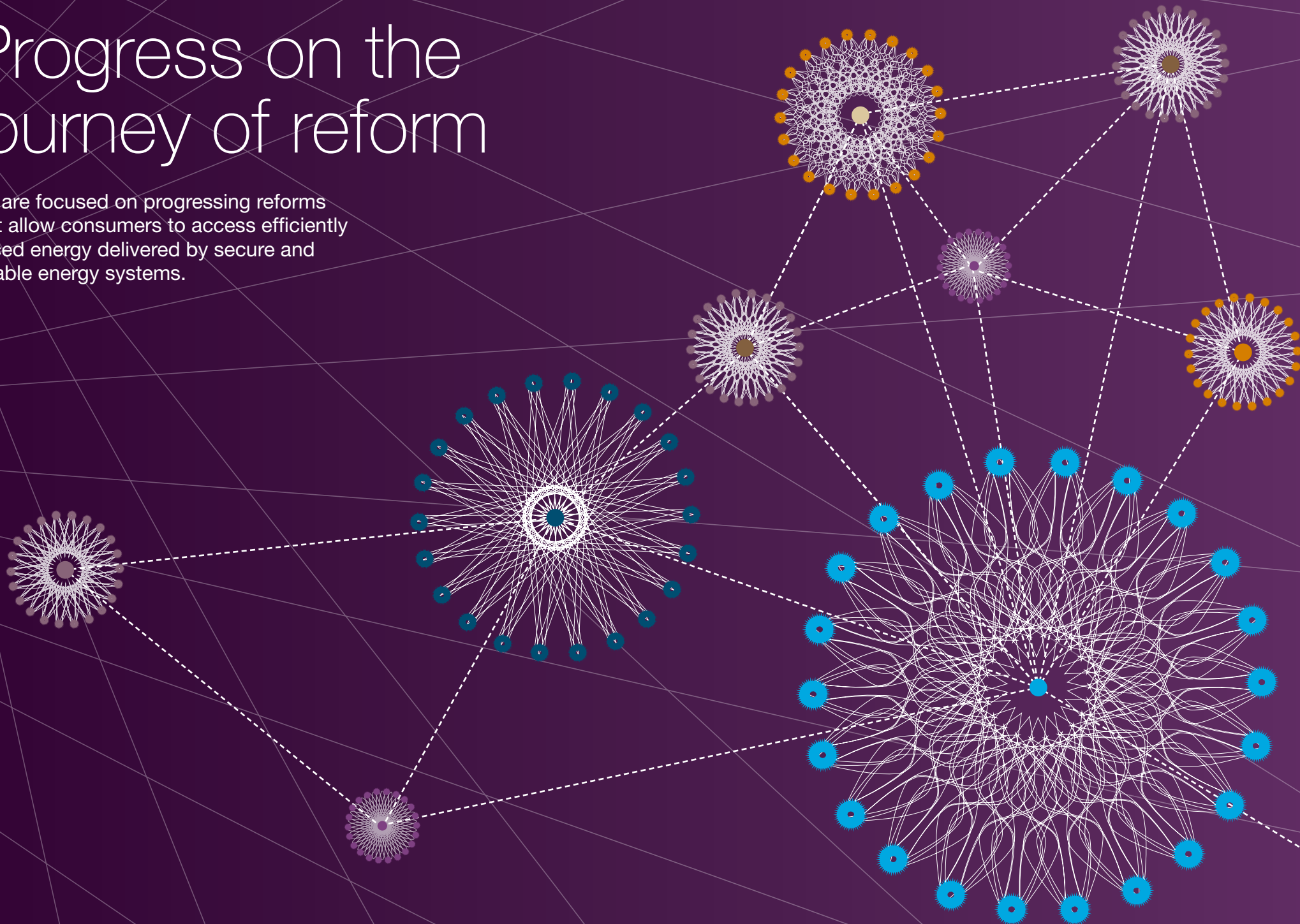
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Rules and Reviews 2015-2016



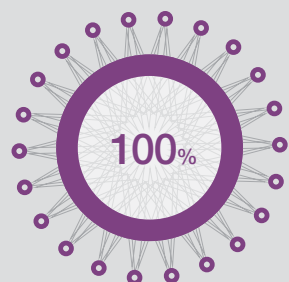
# Progress on the journey of reform

We are focused on progressing reforms that allow consumers to access efficiently priced energy delivered by secure and reliable energy systems.

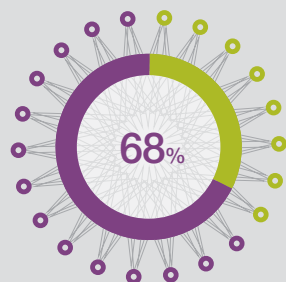




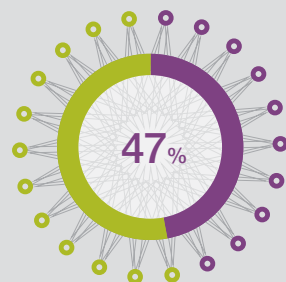
# Performance summary



of market reviews and advice completed within original terms of reference timelines



of rule changes completed without extension after initiation

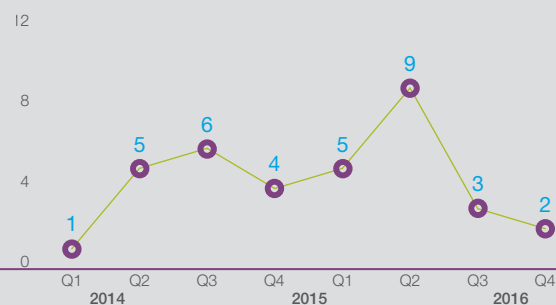


of rule changes initiated within four months

## MARKET REVIEWS AND ADVICE PAPERS

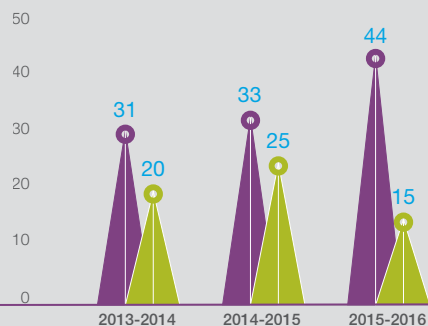


## NEW RULE REQUESTS BY QUARTER 2014-2015 AND 2015-2016



## HISTORICAL SNAPSHOT

All projects undertaken (completed and carried forward)



● Rule changes  
● Reviews and advice

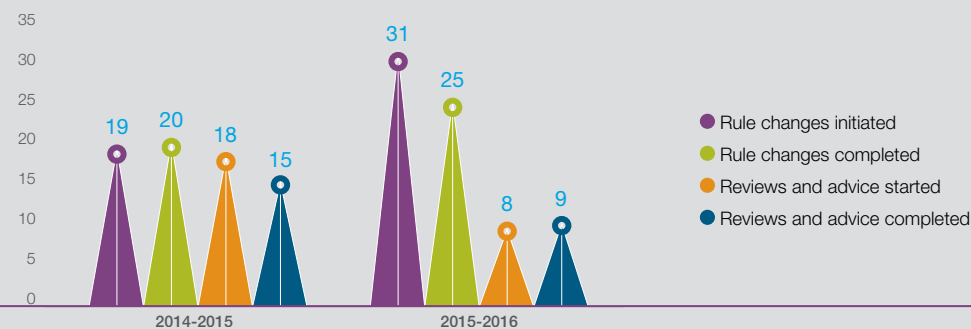
## RULE CHANGES



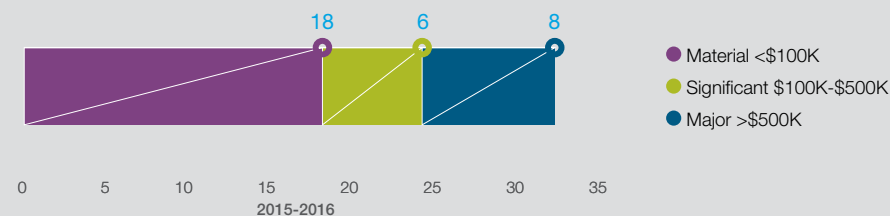
## JUDICIAL REVIEWS OF DECISIONS

0

## RULE CHANGES, REVIEWS AND ADVICE – STARTED AND COMPLETED



## CLASSIFICATION BY BUDGET FOR ALL COMPLETED RULE CHANGES, REVIEWS AND ADVICE



Note: Of 34 projects completed in the year under review (25 rule changes and 9 reviews and advice), two were consolidated and did not have their own budget and so are excluded from this classification.

EFFECTIVE GOVERNANCE



An independent annual review of our risk assessment framework was conducted this year and found that appropriate mitigation measures were in place and being implemented.

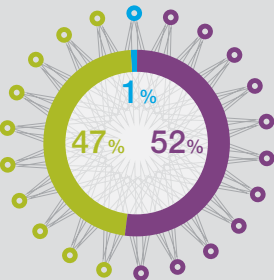
ANNUAL EXPENDITURE WITHIN BUDGET



(target +/-5%)

The Commission's funding is provided by the jurisdictions' contributions.

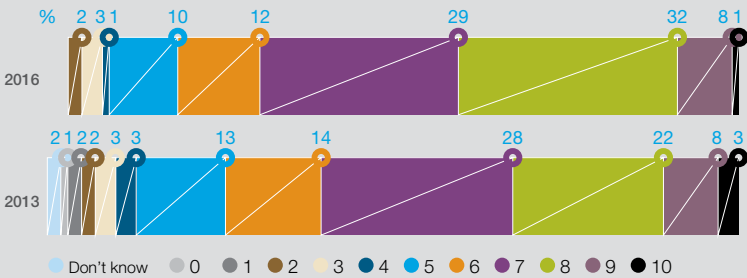
ACTUAL EXPENSES



- Employee Benefits Expense
- Supplies & Service
- Depreciation

2016 REPUTATION SURVEY

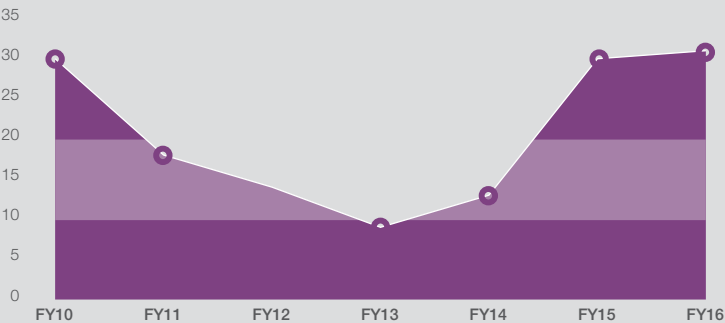
Positive opinion has strengthened significantly since our last stakeholder survey in 2013. Over the period overall opinion of the AEMC has lifted and 70% of stakeholders rated our performance at 7 or more out of 10 in 2016 compared with 61% in 2013.



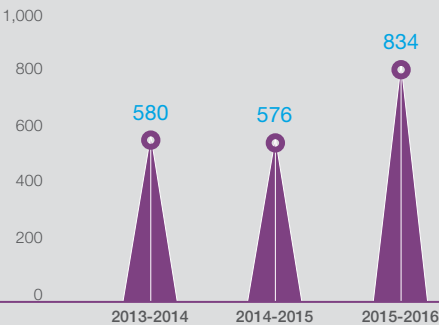
Note: Percentage may not add up to 100% due to rounding

STAFF TURNOVER

Target 10%–20% balancing retention of corporate knowledge with infusion of new ideas.

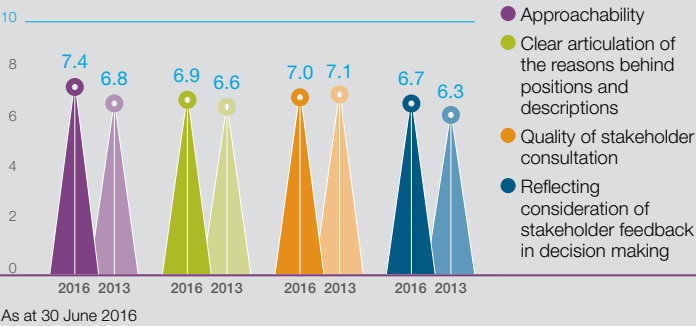


STANDARD SUBMISSIONS RECEIVED FROM STAKEHOLDERS



2016 KEY ATTRIBUTES SURVEY

Average rating out of 10



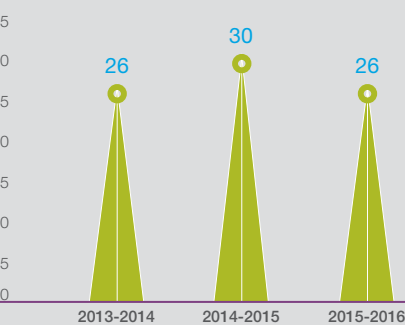
EMPLOYEES

SENIOR MANAGEMENT TEAM BY GENDER

EMPLOYEES BY GENDER



FORMAL STAKEHOLDER FORUMS AND WORKSHOPS



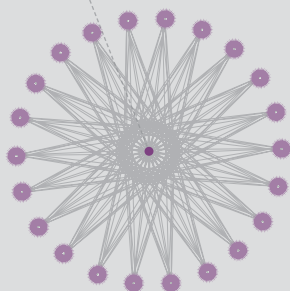
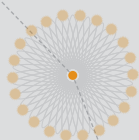
# Chairman's message

Joining the dots on energy market transformation



**CHAIRMAN**  
JOHN PIERCE

The scope and pace of change is accelerating. The Commission is taking a big picture approach to its work program with consumer interests front and centre as the sector transforms.



Emissions policy has changed the face of Australia's power system. Recent investment has focused on wind and solar while significant capacity, mainly coal-fired, has permanently or temporarily exited. At the same time households and businesses are becoming active energy shoppers in competitive markets and comprehensively changing the way they use electricity.

The growing range of technologies and energy service options for consumers to choose from is amazing. We have seen storage penetration, microgeneration and smart consumption management emerging as driving forces in the competitive retail market. Of course people still want reliable energy supply and a secure power system at the best possible price. But today they also want reduced carbon emissions.

A major theme emerging from Commission conversations with stakeholders for some time has been the importance of environmental and energy policy integration.

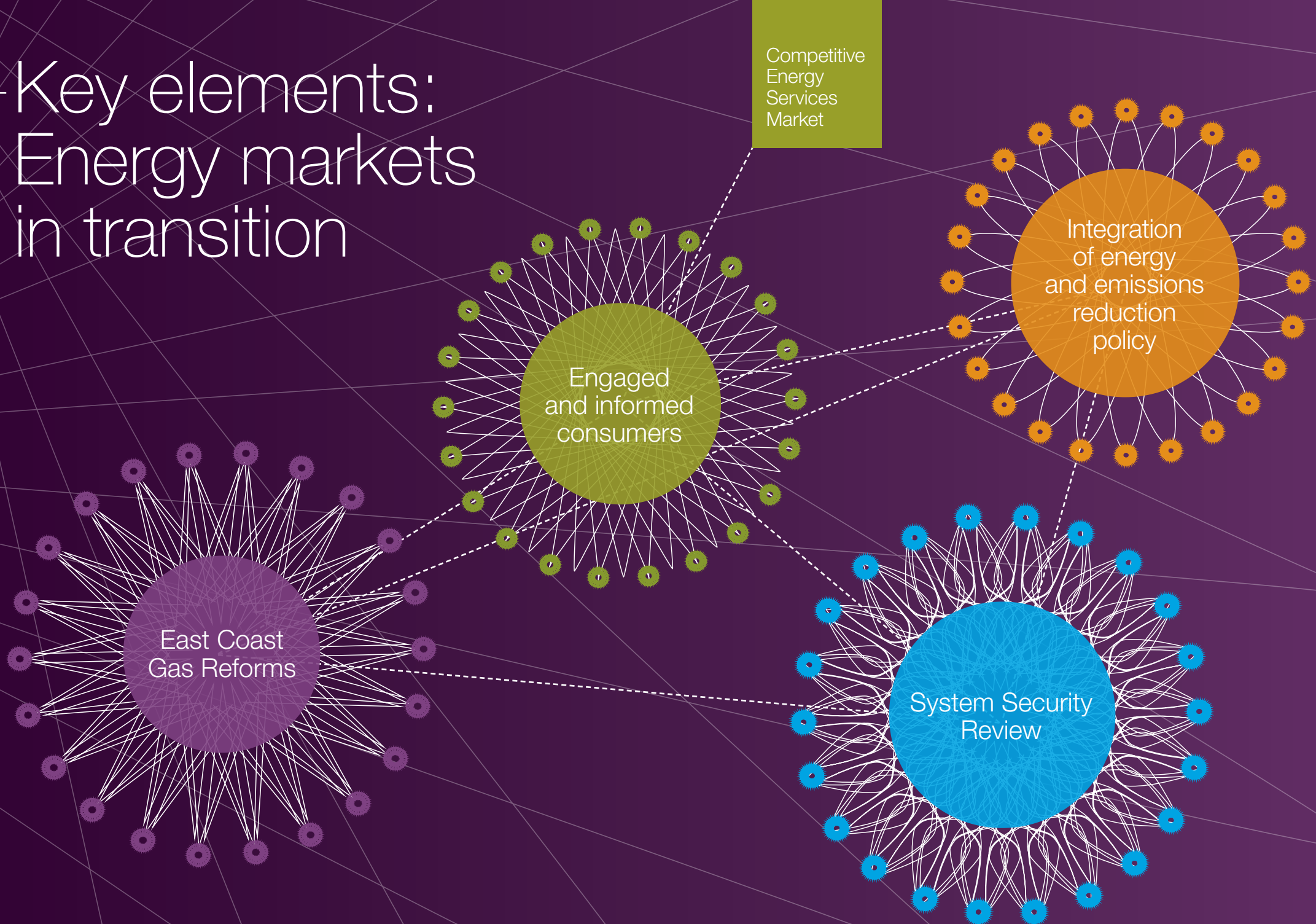
Environmental policy can directly influence movements in wholesale and retail prices; changes to investment incentives and risk allocation; as well as the level of consumer engagement with the market. So while it is the role of governments to determine required environmental outcomes, such as emissions levels, the mechanism used to achieve them needs to be compatible with how markets operate. The AEMC's role lies with providing advice on those mechanisms and seeing them implemented in a way that supports the efficient operation of the energy market and the long-term interests of consumers.

The Council of Australian Governments (COAG) Energy Council has asked its officials for advice on potential impacts of carbon policies on the energy sector to facilitate better integration. This work will support the Council's engagement with the Department of the Environment and Energy's 2017 review of the Emissions Reduction Fund and Safeguard Mechanism. Both the AEMC and the market operator, AEMO, are assisting officials with this work.

As we adjust to this new world one thing is for certain. The energy sector is not static. There will be different challenges tomorrow and regulatory frameworks will need to be adaptable into the future.

Our work program this year highlighted significant projects to address structural changes which are underway in the energy market:

# Key elements: Energy markets in transition





### Comprehensive redesign of the east coast gas market

An important part of the AEMC's work this year has been the development of a package of gas market reforms to deliver the COAG Energy Council's vision for the creation of a liquid wholesale gas market. Importantly, the reform roadmap addresses the need for a fundamental redesign of the east coast gas market so consumers can see whether the price they are being offered for gas is a reasonable market price, and available gas goes to where it is valued most, thereby making a greater contribution to the value of Australia's economic output.

Changing supply dynamics are driving the rationale for reform of the east coast gas market. These changes will affect the market in two ways: through the pattern of gas flows and the volatility of flows and prices. The AEMC's

reform package puts in place the pipeline transportation arrangements and wholesale trading markets, supported by appropriate levels of market information, to allow the sort of flexible trading responses that are required.

The gas reform agenda on the east coast of Australia is substantial. It goes without saying, however, that all major policy reforms are difficult. As for any significant reform, a key success factor will be governments having consistent positions over time on policy outcomes. This is important work - the creation of resilient gas and electricity markets that are transparent, flexible and can adapt to whatever the future may bring.

Experience tells us that major reforms with long-lasting benefits need to be implemented carefully. The detail matters. There needs to be a well thought-out plan,

with the right sequencing and a dedicated team to follow it through with a clear idea to the outcome. Also required is the ability to be responsive and flexible when moving through the various stages of implementation.

### More sophisticated market and regulatory mechanisms to maintain power system security

Significant work is being done on integrating increasing amounts of renewable generation into the National Electricity Market (NEM) at the same time as we are seeing coal-fired generators exit.

South Australia is leading this, with Australia's highest penetration of wind and solar generation comprising around 40% of the state's annual electricity consumption. These technologies have technical characteristics that differ from the plant they are replacing.

The impact of renewable generation on how the system is maintained in a secure state will be an important focus in the coming years. The AEMC has initiated a review into system security that will allow us, working with the Australian Energy Market Operator, and other stakeholders, to provide a comprehensive set of potential market and regulatory solutions to complement the introduction of newer technologies, such as wind and solar.

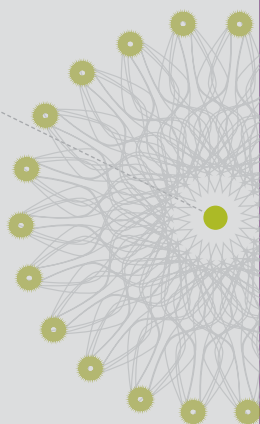
### Integrating emissions reduction and energy policy

One of the main themes emerging from our extensive consultation with stakeholders has been the critical importance of energy and emissions reduction policy integration. Environmental policy has tended to be developed externally to the energy market. It can directly

influence how effectively the market operates; along with energy outcomes including movements in, and the relationship between, wholesale and retail prices; changes to investment incentives; the consistency of risk allocation and the level of consumer engagement.

Fundamentally, markets and regulatory arrangements can be thought of as mechanisms for allocating risks between the parties involved. In a sector such as energy, the ability of the system to operate effectively and ultimately, the outcomes for consumers, depends on the various policy and regulatory interventions taking a consistent approach to risk allocation.

Setting environmental policy objectives is, of course, the role of governments. The AEMC can assist with the development of mechanisms used to achieve those policy





objectives; in ways that support the efficient operation of the energy market and the long-term interests of consumers.

### Continued support for the development of the competitive energy services market

If we start with the proposition that it is consumers themselves who are in the best position to decide what works for them, much of the AEMC's efforts over the past five years have been in supporting the development of the competitive retail services market. This will allow more opportunities for consumers to make informed choices about the way they use energy based on the benefits that end-use services provide to them.

This is at the heart of the Power of Choice reforms that have been progressed over the last few years. These reforms are about giving consumers options in the

way they use electricity and creating an environment that supports the development of a different type of retail market. A retail market that is based on the packaging of services to consumers and not just selling kilowatts. It has laid the foundation for the energy system to be positioned to respond to new technologies in a way that is in consumers' interests.

These technologies are changing how consumers participate in energy markets and include battery storage as well as other micro and distributed generation, smart devices and meters, and connected home products and services.

From a policy and regulatory perspective, we need to focus on the function these new technologies perform, and adapt the regulatory and market processes, where needed, to accommodate them.

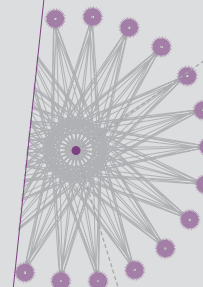
### Working with our stakeholders

During the year the AEMC consulted with consumers, industry and governments to refresh its strategic priorities for energy market development covering the issues I have discussed here. What became very apparent during our consultation was the strong appetite from so many parts of the community for meaningful debate on energy issues.

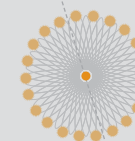
In continuing the reform journey, we know that delivering successful outcomes for consumers will take effort from all of us. Our work this year, as discussed in this report, highlights the progress that has been made on that journey. I am pleased to present to you the AEMC's Annual Report for 2015-2016.



**John Pierce**  
CHAIRMAN



Much of our effort over the past five years has been in driving more opportunities for consumers to make informed choices about the way they use energy based on the benefits that end-use services provide them.



# — Chief Executive's message

Strengthening our capabilities to support the journey of reform



CHIEF EXECUTIVE  
ANNE PEARSON

We are passionate about what we do – knowing that our rule changes, reviews and advice must ultimately benefit energy consumers and, in so doing, the wider Australian economy.

I am pleased to present my first annual report as Chief Executive of the AEMC. I would also like to acknowledge the contribution of our previous Chief Executive, Paul Smith, who returned to England with his family in December 2015. Paul left the AEMC strongly positioned to continue to deliver effective change and support Australia's energy market development. Under his leadership the organisation enhanced its focus on developing an open, respectful and collaborative culture which governs our relationships with stakeholders across consumer groups, industry and government.

The AEMC's people are dedicated to their work and genuinely committed to energy market reform. We are passionate about what we do – knowing that our rule changes, reviews and advice must ultimately benefit energy consumers and, in so doing, the wider Australian economy.

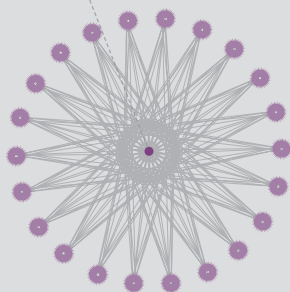
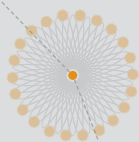
This commitment has helped us to meet the challenge of the increasing volume and complexity of our work program this year – an outcome of the accelerated change we are seeing in energy markets. It is more important than ever that the AEMC continues to attract and retain outstanding people who want to be at the forefront of understanding the new energy market dynamics. A particular focus of mine is maintaining a culture that supports our people in performing at their best so they can continue to deliver our extensive work program.

This year we completed more rule changes than any previous year – 25, with another 19 underway at 30 June 2016. We also worked on or completed 15 reviews and pieces of advice. Our major reviews this year included our analysis of the Regulatory Implications of

the Integration of Storage in Australia's energy markets, the East Coast Wholesale Gas Market and Pipeline Frameworks Review, the Review of the Victorian Declared Wholesale Gas Market, our annual reviews of Residential Electricity Price Trends and Retail Competition, and our biennial review of Strategic Priorities for Energy Market Development.

Reflecting the wider scope of our work program this year, the extent of our consultation with stakeholders has also increased. For example, our gas reviews received more than 180 submissions with a wide range of views as well as innovative and challenging ideas.

We have also completed a number of complex rule changes this year including Expanding Competition in Metering – a key reform which removes the networks'



Our reputation for high quality analysis, intellectually challenging work and a supportive culture has enabled us to continue to recruit talented specialists.

effective metering monopoly – and the new Bidding in Good Faith rule which deters generators from making false or misleading late rebids when they sell electricity into the wholesale market. We held 11 forums and workshops and received more than 200 submissions on these two rule changes alone. Importantly, our work program has been delivered on budget.

#### Delivering change

To meet the challenges of delivering our expanding work program, we have focused on:

- improving our efficiency, building on the recommendations from the Review of Governance Arrangements for Australian Energy Markets undertaken in 2015;
- developing our people and culture so we can continue to attract and retain outstanding staff; and

- effectively engaging with our stakeholders, using our three yearly reputation survey and regular project surveys to guide us as we continue to strengthen and broaden our engagement program.

#### Producing more efficient outcomes

This year we have increased our transparency in line with recommendations from the Review of Governance Arrangements for Australian Energy Markets.

We now publish a weekly calendar on our website that tracks all rule changes and reviews underway and enables stakeholders to see the expected start dates of rule changes we have received but not yet initiated. Our website also now has an historical calendar that tracks the start-to-end progress of strategic projects, from when we receive the review's Terms of Reference, through to the consideration of our recommendations by the COAG Energy Council, the

submission of rule change proposals, and the AEMC's final determination.

While timeliness continues to be a challenge, mainly due to staff resourcing, I am pleased to see our efforts have resulted in a significant improvement in the speed of initiating projects. This year we initiated almost 50 per cent of projects within our target four month timeframe, up from 17 per cent the previous year. We will make further changes and resourcing decisions in the year ahead to increase our timeliness in both initiating and completing rule changes.

#### Attracting and retaining outstanding people

Our people are fundamental to the quality of analysis and advice we provide.

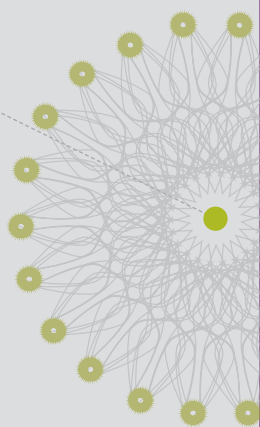
This year we recruited 26 new staff. Many of our recent recruits are from overseas – including Spain, Ireland, Hungary and Canada – bringing with them direct experience of international energy markets and models.

Although our staff turnover is higher than we would like it to be, our reputation for high quality analysis, intellectually challenging work and a supportive culture has enabled us to continue to recruit talented specialists. Many people leaving our organisation have moved into senior positions in the public sector, consultancies and the energy industry, both in Australia and overseas, showing how working with the AEMC can help build careers.

We are reviewing and refreshing our approach to recruitment and retention, with a range of initiatives including a new employee recognition scheme and improved internal communication. A new careers website and accompanying recruitment toolkit are in development, and we will also introduce a formal graduate program, with the first intake due in 2018. We are taking a strategic, long

term approach to recruitment by identifying the specialised talent we are likely to need, looking both in Australia and abroad. Having a strong pool of talent with a range of policy and commercial experience, combined with effective succession planning, will be key inputs in delivering our expanding work program over the next few years.

Our people are experts in their field and are continuously expanding their knowledge and thinking innovatively as energy markets evolve. Throughout the year we have encouraged staff to broaden their skills through participating in conferences and working groups, delivering presentations and representing the AEMC on discussion panels, and also through secondments to other government agencies, including the Western Australian Department





of Finance, the NSW Department of Industry, the Commonwealth Department of Industry and the Australian Energy Market Operator (AEMO).

The value of our people was brought home to us in extremely sad circumstances when one of our Senior Economists, Stuart Slack, passed away suddenly in April. Stuart had been with the AEMC for four years and played an integral role in several significant projects including the Bidding in Good Faith rule change and the Integration of Storage review. Stuart contributed greatly to the AEMC through his keen intellect and the high quality of his work, but more importantly through his warm friendship, enthusiasm for life, and sense of fun. In Stuart's memory, we have established a scholarship as part of our Learning and Development program, giving staff an opportunity to further their economics studies in

areas relevant to the AEMC's work. We plan to award the scholarship each year upon application, starting in 2017.

### Broadening our engagement

Stakeholder engagement is at the heart of the AEMC's work. Effective engagement helps to shape our thinking and provides valuable input to our rule making and our advice to governments.

We undertake regular surveys to assess how we are tracking. We completed our major three-yearly reputation survey in June this year. The reputation survey is supplemented by online project-specific surveys, where representatives from consumer groups, industry, governments, academics and other interested groups provide feedback on their engagement experience across a range of rule change projects and reviews.

This year's surveys found that overall our stakeholders recognise that the AEMC is continuing to deliver quality work at a challenging time, and positive opinion of the AEMC has improved significantly over the past three years. For our projects, the majority of stakeholders rated the AEMC's overall approach to consultation as quite or very good, with high ratings given for our openness and approachability. However, we scored the lowest for providing feedback on how stakeholder input has influenced our work. Some of our stakeholders also felt that we have preconceived positions and give insufficient consideration to positions which do not align with the AEMC's thinking.

We carefully consider the findings of these surveys as part of our commitment to continual improvement. The feedback also guides us in improving our engagement and the tools we use.

We know that our weekly e-newsletter is helping to keep our stakeholders informed about, and able to participate in, our rule changes and reviews. We have also expanded our use of interactive webcasts to reach more stakeholders and provide a convenient option for people who are not able to travel for time or cost reasons. This year our Consumer Priorities and Strategic Priorities forums were streamed live for the first time.

We genuinely appreciate our stakeholders' involvement in these processes during the year through their comprehensive submissions and participation in meetings, workshops and forums. Obviously, this input takes time, effort and resources – and the AEMC's processes are not the only ones that many of our stakeholders are involved in. We are mindful of conducting our work efficiently and making it as easy as possible for our stakeholders

to participate. It is only with their active engagement that we are able to gain the most comprehensive understanding of the potential impacts of our decisions and, in so doing, produce well-informed, high quality rule changes and reviews.

### Looking ahead

The AEMC remains committed to energy market reform. We will continue to strengthen our organisation's capabilities so we are ready for the future, delivering objective and well-considered analysis and advice, supported by effective engagement and strong relationships with our stakeholders.



**Anne Pearson**  
CHIEF EXECUTIVE



Effective engagement helps to shape our thinking and provides valuable input to our rule making and our advice to governments.





# Our business

Facilitating competitive and efficient  
market and regulatory frameworks in a  
time of technological change

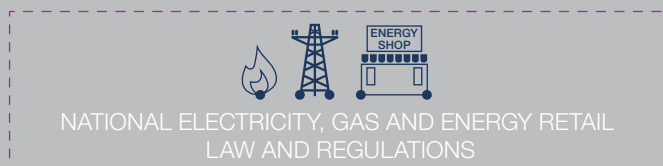
# — How the energy markets are governed

COAG's Australian Energy Market Agreement (AEMA) sets out the reform agenda for the COAG Energy Council which directs the AEMC to conduct reviews.

The COAG Energy Council is made up of federal, state and territory energy ministers. It provides national leadership on energy policy development.

## COUNCIL OF AUSTRALIAN GOVERNMENTS (COAG) REFORM AGENDA COAG ENERGY COUNCIL

COAG is the peak intergovernmental forum in Australia with a role to initiate, develop and monitor the implementation of policy reforms that are of national significance and which require cooperative action by federal, state and territory governments.



**AUSTRALIAN ENERGY MARKET COMMISSION (AEMC)**  
Rule maker, market developer and adviser to governments



**AUSTRALIAN ENERGY MARKET OPERATOR (AEMO)**  
Gas and electricity systems and market operator



**AUSTRALIAN ENERGY REGULATOR (AER)**  
Economic regulation and rules compliance



Generators, network operators, retailers, energy service providers, household and business customers



# — What we do

The Australian Energy Market Commission (AEMC) is the rule maker for Australian electricity and gas markets. We make and amend the National Electricity Rules, National Gas Rules and National Energy Retail Rules. We also provide advice to government on energy market development.

## National Electricity Market

### Our rule making powers

The AEMC makes and amends the National Electricity Rules that underpin the National Electricity Market (NEM). These include rules that:

- govern the operation of the NEM – the competitive wholesale electricity market and the associated national electricity system;
- govern the economic regulation of the services provided by monopoly transmission and distribution networks; and
- facilitate the provision of services to retail customers, including energy-specific consumer protections.

## Scope of the National Electricity Market

The NEM is the wholesale electricity market for the electrically connected states and territories of eastern and southern Australia – Queensland, New South Wales, the Australian Capital Territory, Victoria, South Australia and Tasmania.

The Northern Territory and Western Australia are not physically connected to the NEM and have their own electricity systems. However, both the Northern Territory and Western Australia are working to adopt elements of the National Electricity Rules, which would make the governance framework a truly national scheme involving all Australian states and territories.

### Northern Territory

The AEMC became the rule maker in the Northern Territory for parts of the National Electricity Rules from 1 July 2016. This follows the adoption of the National Electricity Law as a law of the Northern Territory in 2015.

The Northern Territory adopted the rules that regulate access to the network and set revenues that networks can recover. The new national rules apply to the Darwin-Katherine, Tennant Creek and Alice Springs electricity networks.

As the Northern Territory is not physically connected to the NEM, the rules include minor amendments to recognise the differences for a non-interconnected network, within an overarching and uniform set of national rules.

This is the first step in a reform process that is expected to see the Northern Territory adopting other chapters of the National Electricity Rules in the years to come.

### Western Australia

The Western Australian Government is considering adopting parts of the National Electricity Rules related to network regulation, connections and metering. The government's decisions on electricity market reforms are expected to occur progressively over 2016-2017.

## AEMC OPERATIONS: NATIONAL ELECTRICITY MARKET



### National Gas Markets

National Gas Rules made by the AEMC apply to three types of natural gas markets:

- Gas Supply Hubs in Wallumbilla (Queensland) and Moomba (South Australia);
- Short Term Trading Market with hubs in Sydney, Brisbane and Adelaide; and
- Declared Wholesale Trading Market in Victoria.

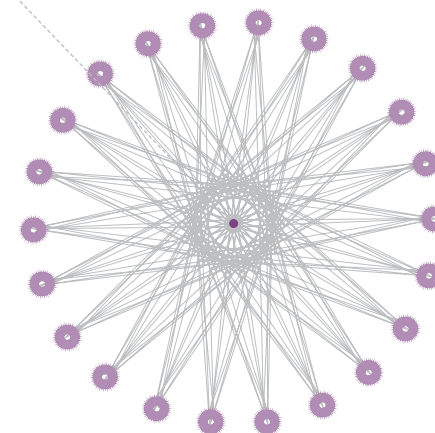
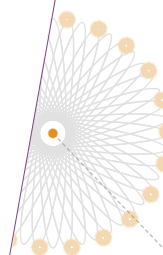
These markets are managed by the Australian Energy Market Operator (AEMO) with separate price-setting arrangements.

This year the AEMC released a package of reforms as part of our East Coast Wholesale Gas Market and Pipeline Frameworks Review. We have recommended concentrating wholesale gas trading at two hubs – a Northern Hub at Wallumbilla in Queensland and a Southern Hub in Victoria.

The AEMC also makes rules that cover the economic regulation of those natural gas pipelines that are covered under the National Gas Law.

Western Australia has adopted a modified version of the National Gas Law. Some AEMC amendments to the National Gas Rules apply in Western Australia in relation to certain covered pipelines. The Western Australian government is considering moving to a model similar to other states and territories where the full version of the National Gas Law and all AEMC amendments would apply in Western Australia.

As we adjust to this new world one thing is for certain. The energy sector is not static. There will be different challenges tomorrow and regulatory frameworks will need to be adaptable into the future.



# — Guiding principles

## Objectives

All of the AEMC's work is guided by the three legislated national energy objectives:

- National electricity objective;
- National gas objective; and
- National energy retail objective.

Each objective requires an explicit focus on the long-term interests of energy consumers in our rule making decisions and advice.

## Rule making

The AEMC makes rules under the National Electricity Law (NEL), the National Gas Law (NGL) and the National Energy Retail Law (NERL).

These rules impact on how market participants can operate in the competitive wholesale generation and retail sectors; provide specific

rights for consumers to whom energy is sold or supplied; and also govern the economic regulation of electricity transmission and distribution services – the 'poles and wires' – and gas pipelines.

The AEMC cannot propose rules (except for minor changes such as corrections). Any stakeholder including governments, industry and consumers can request rule changes. Our central focus on the long-term interests of consumers contributes to greater regulatory predictability and transparency of the rule making process.

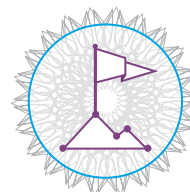
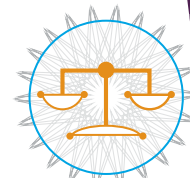
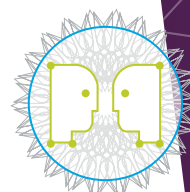
## Reviews and Advice

The AEMC undertakes reviews and provides the COAG Energy Council with

advice on improvements to regulatory and energy market arrangements that will benefit consumers in accordance with the national energy objectives. In our reviews and advice work we consult widely on matters which bear on the progress of the COAG Energy Council's energy reform agenda.

We conduct reviews and provide advice in accordance with terms of reference provided by the nation's energy ministers and can also initiate our own reviews on matters related to the rules.

We also seek to understand the impact on the energy sector of policies outside the energy market portfolio – such as emissions reduction policies – and highlight any issues in our advice to help promote integrated and consistent policy outcomes.



## Mission, Vision and Values

### Mission

To improve consumer outcomes from the strategic development of energy markets, through rules and advice

### Vision

Flexible and resilient markets that benefit consumers.

### Values

The shared values of the AEMC are *leadership, engagement and integrity*. Each of us seeks to reflect those values in how we act and discharge our functions.

*Leadership* reflects our desire to foster and support informed debate on energy market development. We engage with governments, consumers and market participants to promote dialogue and understanding. We value different perspectives and welcome meaningful debate on energy market issues. We share our knowledge, and empower those who look to us for advice.

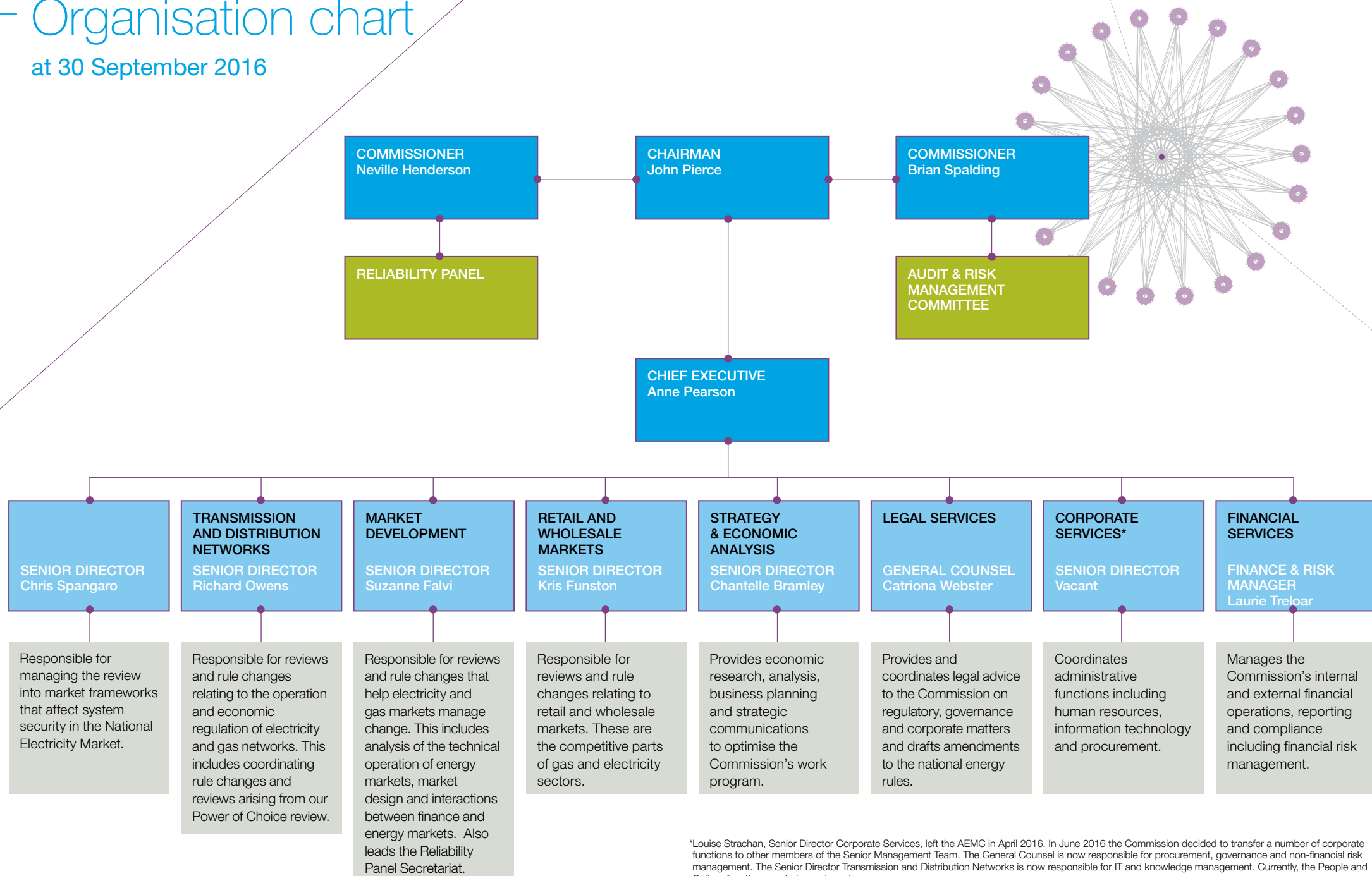
*Engagement* is at the core of everything we do. We aim to build and maintain strong relationships with stakeholders and we value their input to our rule making and strategic advice to governments. We focus on pursuing opportunities for consultation and expanding the range of organisations, groups and individuals with whom we collaborate.

*Integrity* speaks to the respect we have for our stakeholders, our high standards of impartiality, objectivity and the transparent processes that frame the work we undertake. An ethical, reliable and consistent approach is paramount in all our dealings with governments, industry and consumers.



# Organisation chart

at 30 September 2016



\*Louise Strachan, Senior Director Corporate Services, left the AEMC in April 2016. In June 2016 the Commission decided to transfer a number of corporate functions to other members of the Senior Management Team. The General Counsel is now responsible for procurement, governance and non-financial risk management. The Senior Director Transmission and Distribution Networks is now responsible for IT and knowledge management. Currently, the People and Culture functions are being reviewed.

# AEMC Commissioners

## Commission

Our Chairman, Mr John Pierce, and the two part-time Commissioners, Dr Brian Spalding and Mr Neville Henderson, bring diverse professional backgrounds to AEMC rule making and market reviews. They have helped shape Australia's energy reform program over decades.



**MR NEVILLE HENDERSON**  
Commissioner

Former Executive Director with PricewaterhouseCoopers (PwC). While at the National Grid Management Council (NGMC) from 1994 to 1997 Mr Henderson led the development of market and regulatory arrangements for the National Electricity Market. He holds a Degree in Commerce from the University of Melbourne and a Diploma of Mechanical Engineering from Footscray Technology College.

*Mr Henderson was nominated by state and territory energy ministers for appointment.*



**DR BRIAN SPALDING**  
Commissioner

Dr Spalding is the Independent Member of the Energy Saving Scheme Committee of the Independent Pricing and Regulatory Tribunal. He was a former Chief Executive Officer of the National Electricity Market Management Company (NEMMCO) with responsibility for the operation of the National Electricity Market and power system for south-eastern Australia. Prior to joining the AEMC he was Executive General Manager Operations of the Australian Energy Market Operator (AEMO). Dr Spalding holds a Degree in Science, an Honours Degree in Engineering (University Medal) and is a Doctor of Philosophy in Power System Analysis from the University of New South Wales.

*Dr Spalding was nominated by the Commonwealth energy minister for appointment.*



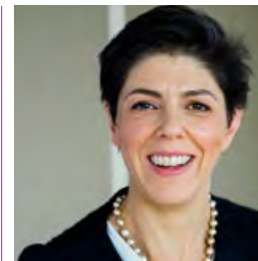
**MR JOHN PIERCE**  
Chairman

Former Secretary of the Federal Department of Resources, Energy and Tourism, former Secretary of New South Wales Treasury and former Chairman of NSW Treasury Corp. Mr Pierce has worked at the most senior levels of policy development and advised ministers, cabinets, and the Council of Australian Governments. He holds an Honours Degree in Commerce from the University of New South Wales.

*Mr Pierce was nominated by state and territory energy ministers for appointment.*

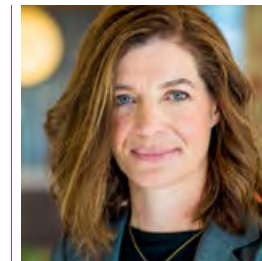
# AEMC Senior Management Team

Our management team strives to continually improve the quality of our analysis across all of our areas of responsibility. Our aim is to demonstrate effective leadership in respect of our statutory responsibilities for market development and rule making – including through closer engagement with our stakeholders on strategic issues and challenges. We are committed to demonstrating the AEMC's core values of leadership, engagement and integrity in all that we do.



**MS ANNE PEARSON**  
Chief Executive

Ms Pearson was appointed Chief Executive of the AEMC in February 2016. Prior to that she served as Senior Director, Market Development, where she was responsible for delivering multiple reviews and rule determinations to facilitate the energy sector's adjustment to technological change and emerging concerns about energy security and consumer responses in a carbon-sensitive world. Before joining the Commission in 2007 she was Executive Manager of Retail Regulation at EnergyAustralia. Ms Pearson's prior appointments include corporate mergers and acquisitions at Freehills and at Deacons. She holds a Degree in Arts and an Honours Degree in Law from the University of Sydney.



**MS CATRIONA WEBSTER**  
General Counsel

Ms Webster has led the legal services team at the AEMC since 2011 and advised on energy market regulatory matters for over 10 years. Before joining the AEMC she worked for energy market operator The Marketplace Company on full retail competition in gas markets and assisted with the transition of those markets from jurisdictional gas market operators to the Australian Energy Market Operator (AEMO) in 2009. Prior to that Ms Webster was a senior associate at King and Wood Mallesons specialising in mergers and acquisitions. She holds a Degree in Arts from the University of Adelaide and an Honours Degree in Law from the University of Sydney.



**MS SUZANNE FALVI**  
Senior Director, Market Development

Prior to her appointment this year as a Senior Director, Ms Falvi worked as a Senior Lawyer in the AEMC's Legal team for three years and was involved in a broad range of rule change requests and reviews involving electricity, gas, networks and retail issues. Before joining the AEMC Ms Falvi worked as a Senior Policy Advisor for the Australian Capital Territory Government on implementing the National Energy Customer Framework and local renewable energy schemes. Prior to that, Ms Falvi specialised in competition, consumer protection, administrative law and commercial litigation for Minter Ellison, and worked as corporate counsel for a renewable start-up on intellectual property and energy regulatory issues. She has a Degree in Economics, an Honours Degree in Law and a Master in International Law from the Australian National University.



**DR KRIS FUNSTON**  
Senior Director, Retail and Wholesale Markets

Dr Funston leads the AEMC team responsible for reviews and rule changes relating to the competitive parts of Australia's electricity and gas sectors. He brings wide-ranging commercial experience to his role at the Commission, having worked in the economic regulation and competition space across a number of industry sectors including water, telecommunications and energy. Before joining the AEMC he was Manager, Competition and Regulation for Australia's largest water utility, Sydney Water. Prior to that Dr Funston was Senior Regulatory Manager, Telstra Regulatory Wholesale; following positions as Deputy Chief Economist at the New Zealand Commerce Commission; Senior Economist at Access Economics; and Regulatory Economist for AAPT. Dr Funston holds an Honours Degree in Economics from the Australian National University and is a Doctor of Philosophy in Economics also from the Australian National University.



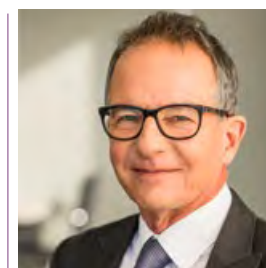
**MR RICHARD OWENS**  
Senior Director, Transmission and Distribution Networks

Mr Owens has a background as a regulatory and competition lawyer and has led projects at the AEMC across a broad range of electricity and gas retail, wholesale and networks issues. Mr Owens previously worked at DLA Phillips Fox where he advised on energy regulatory, competition and consumer law issues. Prior to that he worked for the New Zealand Ministry of Economic Development and a major New Zealand law firm. Mr Owens has an Honours Degree in Law from the University of Canterbury in New Zealand and a Master of Law from the University of Leuven in Belgium.



**MS CHANTELE BRAMLEY**  
Senior Director, Strategy and Economic Analysis

Ms Bramley leads the division responsible for economic research and analysis, business planning and strategic communications. She was previously Vice President Strategy at Direct Energy, one of the largest energy retailers in North America. She also worked at TransAlta, Canada's largest publicly traded generator; was a Senior Economist for the Canadian Energy Research Institute; and was a competition economist at LECG London. Ms Bramley has an Honours Degree in Economics from the University of Sydney, a Master of Science in Economics from University College London, and a Master of Business Law from the University of York.



**MR CHRIS SPANGARO**  
Senior Director

Mr Spangaro's background is in law and public policy. He was previously General Manager of the NSW Greenhouse Gas Abatement Scheme (one of the world's first greenhouse gas abatement schemes) at the New South Wales Independent Pricing and Regulatory Tribunal where he was also Program Manager Water Pricing. Prior positions included the Economic Development Branch of the New South Wales Cabinet Office and earlier policy work in law enforcement and corrections. Mr Spangaro has a Degree in Legal Studies and is admitted as a legal practitioner.



**MR LAURIE TRELOAR**  
Finance and Risk Manager

Mr Treloar joined the AEMC in 2010 as Finance and Risk Manager. He has worked in the United Kingdom (British Gas and Sky Channel) and in Australia (the Australian Broadcasting Corporation). He holds a Degree in Accounting from Macquarie University and a Graduate Diploma in Financial Planning from the Securities Institute of Australia. He has qualifications as a Fellow CPA and a Certified Practising Risk Manager (CPRM).

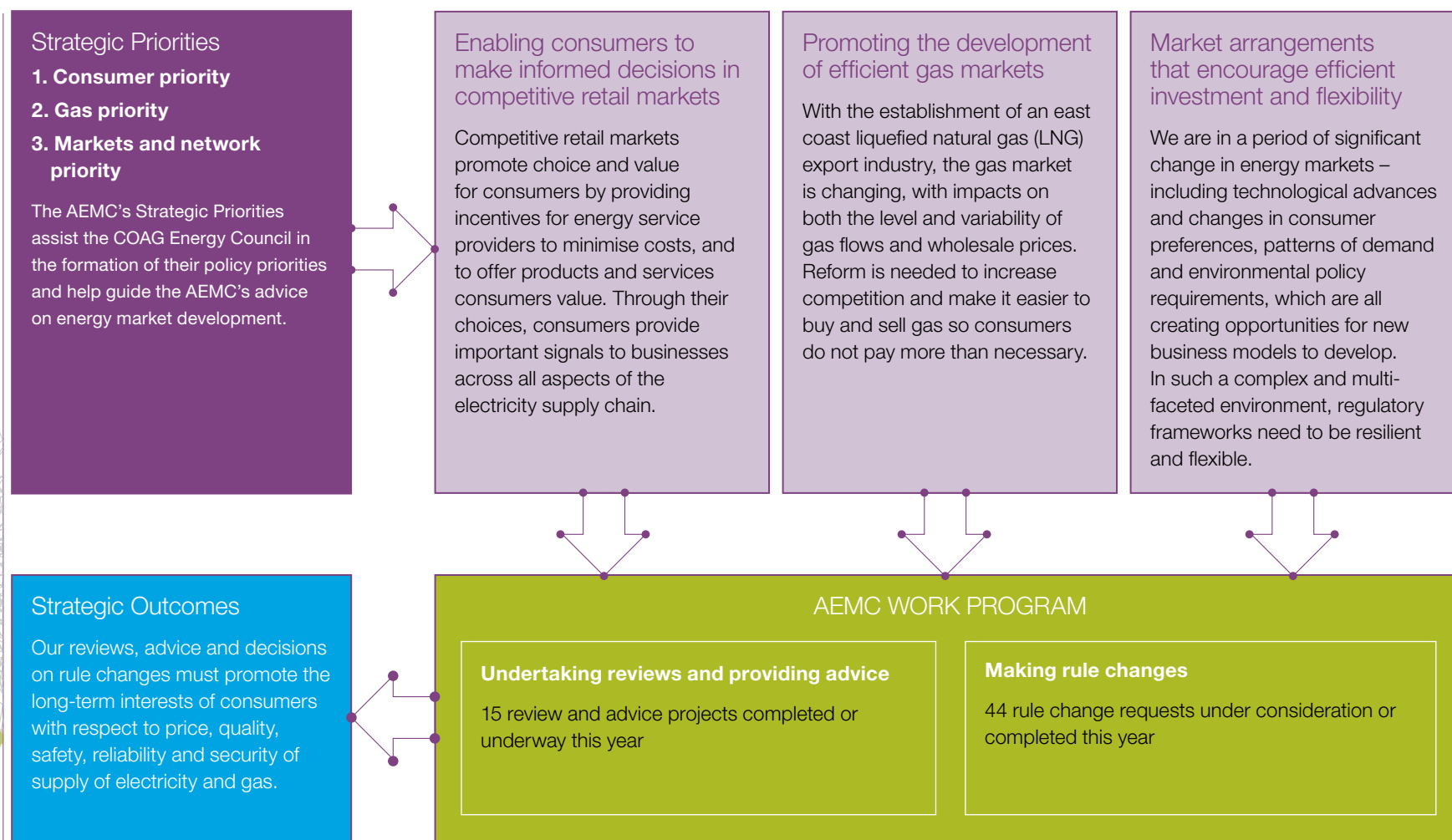




# Rules and reviews

# — Strategic Priorities for electricity and gas market development

Every two years the AEMC develops strategic priorities through extensive consultation with stakeholders on what matters to them. The AEMC's Strategic Priorities guide our work program and our approach to rule making, reviews and advice.



# — Overview of our work program

Our work program this year has made significant progress delivering reform in a range of key areas.

The AEMC has an extensive strategic work program, with many of our rule changes and reviews driving significant reform in energy market frameworks as the sector transforms.

Just as importantly, our 'business as usual' work continued as we responded to the more immediate requirements of electricity and gas market participants. These more tactical rule changes – for example clarifying roles, responsibilities, definitions, guidelines, transparency and reporting requirements – ensure markets can continue to function and energy market institutions can do their job effectively as the market evolves. See the Appendix for

an overview of all rules and reviews either made or under consideration in 2015-2016.

## Strategic Priorities

This year the AEMC released its biennial Strategic Priorities for Energy Market Development. Our strategic priorities guide our work program, approach to rule making and provision of advice, and are the outcome of an extensive consultation process with a broad array of individuals and organisations with a stake in the future of the energy market.

The AEMC's strategic priorities are:

**Consumer Priority:** Enabling consumers to make informed decisions in competitive retail markets

**Gas Priority:** Promoting the development of efficient gas markets

**Markets and Networks Priority:** Encouraging efficient investment and flexibility

In adopting these strategic priorities, the AEMC remains focused on the overarching objective of an efficient, safe, secure and reliable energy system that keeps prices as low as possible for consumers.

An overview of this year's work program, including major rule changes and reviews, in each of these priority areas, is outlined below.

## Consumer Priority

### Enabling consumers to make informed decisions in competitive retail markets

Australia's energy markets have changed dramatically since the AEMC's landmark Power of Choice review was released in 2012, with a revolution in the way supply and demand interacts.

Reforms over the past four years have significantly increased the ability of consumers to make informed choices about how they use electricity and manage their energy costs. These reforms mean that demand side participation is already happening in the National Electricity Market (NEM).

Demand side participation means making it easier for consumers to change the way they use electricity to avoid periods of high demand and high cost. Reductions in energy consumption at certain times can create savings in the costs of meeting Australia's energy needs – in particular, the need for investment in peak generation and network capacity. Where these investments are efficiently avoided the overall costs of supplying electricity can be reduced. It can also reduce pressure on the need to provide alternatives to intermittent energy generation.



### Opening up competition in metering and embedded networks

In a major step forward for the reform program, the AEMC made a final rule in November 2015 that allows new competitors to offer metering services and gives people a choice to either retain their existing working meters or to take up new services that advanced meters enable. The new rules remove the networks' effective metering monopoly.

The information and services available through advanced metering can make it quicker for consumers to switch retailers, allow them to decide how often they want to be billed, and provide them with better information about how they can change their electricity use to save money. Consumers can also benefit from more accurate meter reads.

The new rules take effect in December 2017 and implementation is progressing well, with some retailers and energy services businesses already providing advanced meters to customers who want them.

We expect there will be a number of Metering Coordinators operating when the new rules commence, providing advanced metering services to retailers, distribution networks, large users and third party service providers. In turn, we anticipate that this will facilitate new services being offered to consumers which will enable them to monitor, manage and adjust their electricity consumption.

Implementation of the new metering rules has been coordinated with other new rules on embedded networks, meter replacement processes and the business-to-business (B2B) communications system:

- In December 2015 the AEMC made a rule for Embedded Networks which promotes competition by giving embedded network customers, such as apartment blocks, shopping



## Understanding vulnerable customer experiences and needs

**As part of our 2016 Retail Competition Review, we commissioned research to increase AEMC, community and decision-maker understanding of customer vulnerability across energy markets.**

The research included segmentation analysis, which drew on the results of our quantitative survey (2,333 residential respondents), in-depth interviews and online focus groups targeting consumers with various indicators of vulnerability. It explored how their experiences may differ from other customers and what additional information, tools or support may be required to assist them to obtain the most appropriate energy deal for their circumstances.

Vulnerable consumers in the energy market were identified as those who are experiencing social and/or financial difficulties that mean they are especially impacted by energy price increases, worried about the effects of changing their arrangements or susceptible to stressful experiences because they cannot always pay on time. One in five energy consumers (20%) are considered to be vulnerable.

The key findings were:

**The risk of vulnerability varies across customer groups.** Consumers sit on a spectrum from low to high risk of vulnerability and a customer's degree of vulnerability varies over time depending on their financial, social and personal circumstances.

**Some vulnerable customer segments are not aware of support services.** The lowest income group tends to have access to government services and consequently has access to a range of available support. However, vulnerable middle income families may be overwhelmed by debt, not in touch with general government support and unaware of help to which they are entitled.

**Vulnerable customer experiences and outcomes are similar to all other customers,** however negative outcomes can have greater consequences. Largely consistent with all customers, vulnerable customers are largely aware that they have a choice of energy retailer and are investigating their options and switching at similar rates to the broader community. For all customers, the primary motivation is to reduce energy costs, and online search is the most common starting point. Extremely low awareness of independent government comparison websites, but strong interest once they are made aware, is also consistent across all groups.

**Barriers to engagement are more significant.** Vulnerable consumers can experience greater barriers to switching than other consumers due to a fear of doing the wrong thing, embarrassment at their financial situation, and concern about a loss of current benefits or increased debt and exit or reconnection fees if they switch retailers.

**Increased access to information and tools is particularly important for customers at higher risk of vulnerability.** Vulnerable customers would benefit the most from greater awareness of the tools available to help them access competitive retail market offers and investigate new products and services. Some customers with higher indicators of vulnerability would benefit from targeted information about the tools available, so that they could investigate their options and capture available savings from competitive market offers. Others require information about the support services available. The research also suggests that some customers who may be eligible for concessions are not aware of them, and that others who are particularly vulnerable may not be eligible for them.



centres and retirement villages, a choice between services from retailers in the market or from their embedded network operators.

- In March 2016 the AEMC made a rule on Meter Replacement Processes which clarifies requirements on when meters can be changed during the switching process so energy service providers are clear on their roles and obligations – increasing the metering framework's efficiency.
- In June 2016 the AEMC made a final determination on Updating the Electricity B2B Framework and a new shared market protocol for advanced meter communications to establish common communication standards to reduce the barriers for providers of new metering and energy services.

### 2016 Retail Competition Review

The effectiveness of Power of Choice initiatives is strongly related to the level of competition in retail energy markets. The AEMC released its third annual review of retail competition in NEM states and territories in June 2016.

To reach our conclusions on the current state of competition across the NEM we assessed each geographic and product market against five competitive market indicators:

- customer activity in the market;
- customer outcomes in the market;
- barriers to retailers entering, expanding or exiting the market;
- the degree of independent rivalry among retailers in the market; and
- whether retail energy prices are consistent with a competitive market.

We analysed both quantitative and qualitative information on these indicators drawn from our primary research, and took account of behavioural insights which can affect customer behaviour and market outcomes. We also considered stakeholder comments and a range of additional data on the indicators to form a judgement on the overall state of competition.

Our review found that competition in retail electricity and gas markets is becoming more dynamic and delivering new types of retail deals and services to consumers as the market transforms to give consumers greater control over how they manage and use energy.

Key findings were:

- The benefits of shopping around have increased, with savings of up to 30% available to consumers who switch to a better deal.

## Implementation of Distribution Network Pricing reform

**The reforms flowing from the AEMC's Power of Choice review have laid the foundations for an energy system that is positioned to deploy new technologies in response to the choices consumers make.**

A key plank is pricing reform. From 1 July 2017 networks will be required to structure their prices to better reflect the consumption choices of individual consumers. This will enable consumers to receive price signals about the cost of using electricity in different ways and at different times, so they can make informed consumption choices and manage their expenditure.

Retailers incorporate network tariffs into the final electricity tariffs that appear on customers' bills. Retailers can choose how they pass on these price signals to customers, taking into account their own strategies and consumers' preferences.

Network businesses are preparing for the introduction of cost-reflective pricing and have consulted with consumers, retailers and other stakeholders on proposed network tariffs under the new rule.

The network businesses have different starting points. While the traditional flat rate per kilowatt hour is the most common tariff structure currently offered to customers, some customers are already on more cost reflective tariffs. For example, some customers in NSW and ACT pay a 'time-of-use' tariff where a higher charge for energy applies in peak periods – typically between 2pm and 8pm on weekdays – and a lower rate at other times.

To enhance cost reflectivity, some networks are proposing to introduce a seasonal component to time-of-use pricing, with different time bands and usage charges to more accurately reflect peak periods in winter and summer.

Another approach is to use demand-based tariffs. Customers on this type of tariff are charged in a way that reflects their individual maximum energy demand on the distribution network, particularly during peak usage times.

This year all network businesses submitted their proposed tariff structures to the AER. The AEMC will continue to monitor implementation of this important new rule.

- Customers are more satisfied – 73% of customers are satisfied with their electricity retailer, up from 69% last year.
- There is increasing competition among retailers, with the market share of the big three retailers falling and new retailers entering.
- More customers are shopping around – 33% investigated their options during the year, and 19% of electricity and 17% of gas customers changed their retailer in 2015.

However, 50% of customers still have not switched their electricity retailer or plan in the last five years and are not taking advantage of better deals now available in jurisdictions where the market is competitive. In addition:

- Most consumers know competition means they have the option to switch and save but are still not aware of already available information on government-run comparison websites that would help them.

- Research focused on vulnerable customers showed customers who had switched their provider or their plan found the process to be easier than expected.

Overall, our analysis found that retail competition remains effective for electricity markets in New South Wales, Victoria, South Australia and South East Queensland. Energy retail competition is less effective in the Australian Capital Territory and is yet to emerge in Tasmania and regional Queensland.

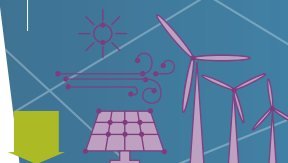
Retail gas markets have effective competition in New South Wales, Victoria and South Australia.

### Evaluating the customer switching process

This year the AEMC commenced assessment of two rule change requests from the COAG Energy Council that consider the experience of customers when transferring to new retailers. These requests propose to: introduce an address standard for address data used when



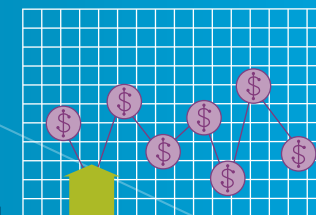
Increasing consumption, based on AEMO's 2015 forecast, puts upwards pressure on costs.



The Large-Scale Renewable Energy Target (LRET) encourages investment in renewable generation, adding to supply and initially suppressing wholesale costs.



Lower wholesale prices driven by lower cost renewable generation (eg. wind and solar) reduce the viability of thermal generators, promoting generator retirements, reducing supply and putting upward pressure on prices.



Intermittent forms of generation can also lead to more price volatility, risks and costs to retailers, ultimately increasing retail prices.

## 2015 Price Trends report

**The AEMC's annual Residential Electricity Price Trends report looks at trends in the underlying cost components of household electricity bills – including the competitive market sectors of wholesale generation and retail; the regulated networks sector; and price implications from government environmental policies**

This year's report, released in December 2015, showed that falling network costs are likely to be offset by expected rises in wholesale electricity and environmental policy costs as electricity prices remain largely flat over the next three years.

The report found that wholesale electricity costs, which have been reasonably stable at a low level in recent years, are expected to rise. Consumption is forecast by the Australian Energy Market Operator (AEMO) to increase at the same time that generators are leaving the market in Victoria and South Australia. Higher forecast gas prices may also contribute to expected increases in wholesale electricity costs as increasing wholesale gas prices raise costs for gas-fired generators.

Environmental policy costs, particularly those associated with the Large-scale Renewable Energy Target that requires retailers to source a proportion of their electricity from renewable sources, and solar feed-in tariff schemes in some jurisdictions, are also expected to rise.

The impact of these higher costs is being mitigated by lower network revenues, which have reduced costs associated with poles and wires by up to 17 per cent in some jurisdictions this year. However, because of appeals surrounding future network revenues, the ability of this mitigating impact to continue beyond this year is now uncertain, with the exception of Queensland where there has been no appeal.

Price trends impact individual households differently depending on how each consumer uses electricity, and how willing they are to switch to a better energy deal where market offers are available. Consumption profiles are increasingly diverse as new technology and significant changes to the National Electricity Rules over the past three years facilitate greater demand side participation in energy markets.

### NEW DRIVERS EMERGING IN OUR EVOLVING MARKET

There is a complex interaction of factors driving wholesale electricity costs.

customers switch retailers; strengthen obligations on retailers to promptly resolve erroneous customer transfers (where a transfer is requested but the wrong customer is transferred); and allow small customers with manually-read meters to transfer to a new retailer based on an estimated meter read, rather than an actual meter read.

These requests flow from the AEMC's Review of Electricity Customer Switching which made recommendations to improve specific aspects of the customer transfer process. A draft determination is due in October 2016.

Gas Priority

Promoting the development of efficient gas markets

East coast gas markets are undergoing a period of growth and change.

Largely isolated point-to-point pipelines have evolved into an interconnected network and gas demand has increased to supply the Queensland-based liquefied natural gas (LNG) export industry. This is impacting both the level and variability of gas flows and wholesale prices. By the end of 2018, all six of the LNG export trains at Gladstone are expected to be fully operational, increasing the likely volatility of east coast gas markets.

Recognising these challenges, the COAG Energy Council developed a vision for Australia's future gas market, seeking to enhance transparency and price discovery, improve risk management and remove unnecessary regulatory barriers.

In February 2015 the Council tasked the AEMC with developing a roadmap for the reform of Australia's gas market. Making it easier to buy and sell gas in redesigned gas markets will increase competition, lower costs and help support gas-reliant industries, with significant flow-on benefits to both consumers and the general economy.

East Coast Gas Review

As requested by the COAG Energy Council, the AEMC undertook a major review of the east coast gas market this year, culminating in a package of 15 key reforms to reduce the barriers to and costs of trading gas along the east coast of Australia.

This package of reforms, which was provided to state and territory governments in May 2016, sets a roadmap for continued development of gas markets. The recommendations aim to establish a new approach to trading gas, supported by improved access to pipeline capacity and additional information provision.

While bilateral contracts will remain a fixture of the markets, the proposed changes would introduce more flexibility to support the efficient exchange of gas between buyers and sellers, with greater incentives to trade contracted but unutilised pipeline capacity.

The AEMC's recommendations will be considered by the COAG Energy Council. Initial

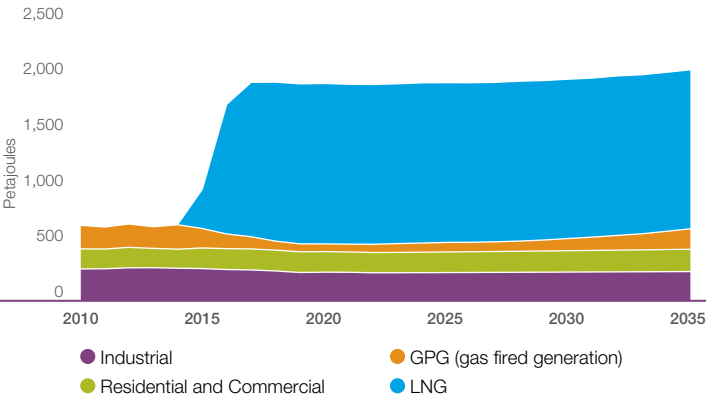
reforms could be introduced immediately following COAG Energy Council agreement, with implementation of the complete package to occur over several phases involving changes to the National Gas Law and regulations, and new rules.

The AEMC has also recommended the establishment of a dedicated implementation body to ensure industry and market participant involvement in the implementation of the recommendations.

Victorian Gas Market Review

In a separate but related review, the Victorian government tasked the AEMC with identifying potential changes to the Victorian Declared Wholesale Gas Market (DWGM) to improve price and investment signals so that benefits in trading, risk allocation and lower transaction costs could flow through to Victorian consumers. More broadly, the review will consider whether, and to what extent, the DWGM continues to effectively promote competition in upstream and downstream markets, in the long-term interest of consumers.

STRUCTURAL SHIFT IN GAS MARKET:  
FORECAST DEMAND FOR EAST COAST GAS



In December 2015 the AEMC released a draft report on proposed reforms to the Victorian DWGM, which form part of our broader roadmap for the development of the east coast gas market. In particular, the proposal to develop a new Southern hub in Victoria has the potential to drive benefits including the establishment of a wholesale gas reference price that would facilitate competition and provide the tools needed by Victorian retailers and wholesale customers to manage risk exposure to gas prices in an export linked market.

A draft final report is due in October 2016, following further extensive consultation with stakeholders.

### Harmonising gas day start times

In March 2016 the AEMC initiated a rule change request submitted by the COAG Energy Council that proposes changes to the National Gas

Rules to harmonise the gas day start times of the Short Term Trading Market (STTM) and the Gas Supply Hub (GSH) with the 6:00am gas day start time of the Victorian gas market.

This is the first rule change request to be submitted in response to recommendations from the AEMC's East Coast Gas Review. The rule change has the potential to reduce complexities across the facilitated gas markets and increase the opportunities for trade and arbitrage between regions.

A draft determination is due in November 2016.

### Improving transparency to support pipeline capacity trading

From October 2016 gas companies will need to provide more information on their operations to the east coast market, following a rule made by the AEMC this year.

The rule specifically addresses information provided to the market via the Natural Gas Services Bulletin Board and responds to concerns that the information currently provided is inadequate to support efficient decision making in an evolving market where gas and pipeline capacity are more actively traded.

The rule requires additional information to be reported by gas transmission pipeline, production facility and storage facility operators. The additional information includes outlooks of uncontracted pipeline and storage capacity, more detailed facility data, additional gas flow data and more information on the operation of gas storage facilities.

The rule change process was conducted in coordination with the East Coast Gas Review.

## A roadmap to reform the east coast gas market

**The roadmap developed by the AEMC this year to reform the east coast gas market is a package of inter-related recommendations relating to three areas of reform which mutually reinforce each other: wholesale gas trading markets; pipeline access; and information provision.**

Key recommendations include:

- Concentrating wholesale gas trading at two hubs – a Northern Hub at Wallumbilla in Queensland and a Southern Hub in Victoria, with improved trading arrangements and price discovery in Victoria. This will reduce market complexity and concentrate trading at key points of demand and supply on the east coast, allowing for increased liquidity and more risk management options for gas users.
- Changes to facilitate pipeline capacity trading markets, including a short-term auction for unused capacity and improved capacity trading platforms. Access to pipeline capacity is a key enabler of wholesale market trading.
- Improving information provided through the Gas Bulletin Board to enable market participants to make better-informed decisions about trading, investing in, or using gas.

The roadmap also addresses issues raised by both the AEMC and the Australian Competition and Consumer Commission (ACCC) about gas access and pricing.

If implemented in full, the reforms have the potential to increase Australia's Gross Domestic Product by \$8.7 billion in net present value terms by 2040 through improved viability of gas-using industries and flow-on benefits to employment and tax revenue.





## Markets and Networks Priority

### Encouraging efficient investment and flexibility

The AEMC's work this year has continued to focus on regulatory frameworks that are supportive of new innovations but in a manner that clearly distinguishes between services that relate to natural monopoly functions of the network and hence are subject to regulation, and services that belong in a competitive energy market.

Market and regulatory arrangements must facilitate the right conditions for business evolution that promotes the long-term interests of consumers. Companies are now competing to offer energy services, not just energy, and it is essential to reduce inefficient barriers to entry and innovation, to enable the development of new business models that offer better consumer and market outcomes.

Changes in technology, business models and consumers' preferences for how they source and use energy, are driving a redefinition of where the lines are drawn between functions that are subject to economic regulation and those that can be provided through competition. These changes are also redefining the relationships between different parts of the sector, where they potentially compete, and the circumstances under which they co-operate.

This has important implications for how competition for retail energy services develops, the role of the retailer and the evolution of networks, in particular at the distribution level. Distribution businesses are evolving from 'one-way' energy delivery systems into multi-directional 'smart grids'.

At the same time, new sources of electricity like wind and solar power are changing the way Australia's power

system works. Challenges in maintaining power system security are emerging because of the physics of maintaining technical generation parameters like voltage and grid frequency. Different approaches to maintaining system security in the NEM, including possible changes to market arrangements, may be required in this environment.

### A level playing field in contestable spaces

In December 2015 the AEMC published a report on the implications of storage integration in the electricity sector. The AEMC's analysis found that utilising the competitive market frameworks currently in place will allow consumer preferences to drive how the sector develops. A consumer-led deployment of storage is not necessarily orderly, but allows consumers to make decisions that reflect their own needs and preferences.

While the existing regulatory framework, and associated processes for developing it, can largely accommodate the installation of storage, the AEMC made a number of recommendations designed to establish a level playing field by clarifying how regulated network businesses can use storage to meet network needs while ensuring that the competitive energy services market is allowed to expand and can continue to drive innovation and choice. The AEMC will work collaboratively with the Australian Energy Market Operator (AEMO), the Australian Energy Regulator (AER) and other stakeholders to progress the recommendations.

The project is part of the AEMC's technology-focused work program to understand how technological change may affect the NEM and develop regulatory

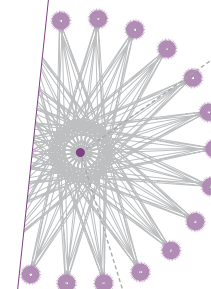
arrangements that continue to support flexible and resilient markets.

### System Security

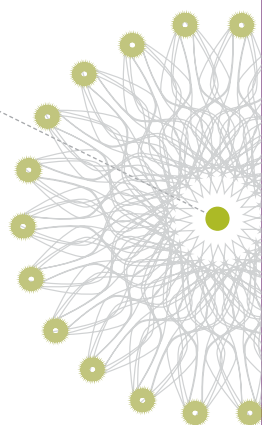
Another key project underway (initiated in July 2016) is the System Security Market Frameworks Review which will address possible changes required to energy market frameworks to meet power system security challenges in the NEM caused by increasing levels of renewable generation.

The AEMC's initiation of this review follows the analysis we undertook during the year as part of AEMO's Power System Implications Technical Advisory Group. This group, which included other energy market institutions, industry representatives and energy officials, identified a range of emerging technical challenges as the NEM transitions to a carbon constrained future.

Conventional electricity generation, like hydro, coal and gas, operate with large spinning turbines



**Making it easier to buy and sell gas in redesigned gas markets will increase competition, lower costs and help support gas-reliant industries, with significant flow-on benefits to both consumers and the general economy.**



that are synchronised to the frequency of the grid. These generators support the stability of the power system by working together to maintain a consistent operating frequency. Less conventional forms of electricity generation, such as wind and rooftop solar, are not synchronised to the grid and are therefore limited in their ability to dampen rapid changes in frequency or respond to sudden large changes in electricity supply or consumption.

In collaboration with AEMO, the System Security Market Frameworks Review will consider a range of technical issues including the minimum level of inertia required to effectively stabilise the power system, allowing it to cope with rapid changes in frequency due to significant movements in supply and demand. Other aspects include fast frequency response and localised

impacts on fault levels within certain areas of the electricity grid. These are just some of the issues which need to be considered holistically.

Our recommendations may include proposed refinements to frequency standards, revisions to technical standards and system standards, additional services markets or other changes to the regulatory framework. An interim report is due to the COAG Energy Council by the end of 2016.

#### **Flexible markets adapting to change**

The AEMC progressed a number of rule requests this year seeking changes to specific aspects of the energy market framework.

#### ***Demand Management Incentive Scheme***

In August 2015 the AEMC made a final determination on the Demand Management Incentive Scheme, in line with proposals from the Total Environment Centre and COAG Energy Council,

to encourage electricity distribution networks to make efficient decisions in relation to network expenditure, including investment in demand management. The rule amended the existing demand management incentive scheme arrangements to provide greater clarity to the AER and stakeholders in respect of how a demand management incentive scheme and a demand management innovation allowance should be designed and applied. This includes the introduction of separate, clearer objectives and principles to guide the AER in developing and applying an effective incentive scheme and innovation allowance, which the AER is required to publish by 1 December 2016. This will enable these mechanisms to be applied from the next round of distribution regulatory determinations, which will start to be prepared in early 2017.

#### ***Bidding in Good Faith***

This year the AEMC made stronger rules to deter false or misleading bids by generators when they sell electricity into the wholesale market. Under the December 2015 Bidding in Good Faith rule change, generators are now prohibited from making false or misleading offers. If rebids are made at the last minute in response to changed market conditions, then the generator must keep a record of the reasons for those decisions. The new rule applies from 1 July 2016.

#### ***Demand Response Mechanism and Ancillary Services unbundling***

In November 2015 the AEMC started consultation on a proposal from the COAG Energy Council to create a demand response mechanism in the NEM. The request also proposes to unbundle the provision of ancillary services from the purchase

and sale of electricity. This could enable a wider group of participants, including new entrants, to offer demand services to help AEMO control the frequency on the electrical system to deliver a safe, secure and reliable source of energy. The rule change proposal is part of the broader package of reforms to support greater demand side participation in the NEM, and was recommended in the Power of Choice review. A draft determination is due in September 2016.

#### ***Local Generation Network Credits***

The City of Sydney, Total Environment Centre and the Property Council of Australia submitted a rule change request this year to introduce a new payment from distribution networks to encourage local generation (also known as embedded

or distributed generation) as an alternative to further investment in the network. Examples of local generation include solar panels and gas cogeneration units. The rule change would require network businesses to calculate the long-term benefits that embedded generators provide in terms of deferring or down-sizing network investment or reducing operating costs, and pay all types of embedded generators a credit that reflects those estimated long-term benefits (netting off any additional costs). The AEMC is investigating whether the current rules are effective in reflecting the network benefits provided by local generation or if a new mechanism is required. A draft determination is expected in September 2016.

#### *Retailer-Distributor Credit Support requirements*

These rule change requests relate to addressing the risks faced by distributors in the event of a retailer default as a result of a retailer being unable

to pay its outstanding network charges. A draft determination is expected in October 2016.

#### *Transmission Planning and Connection Arrangements*

In November 2015 the AEMC released a consultation paper on the COAG Energy Council's proposal to amend the National Electricity Rules relating to the arrangements for transmission planning and connections. The rule change request is largely based on the connection and planning recommendations made by the AEMC in its Transmission Frameworks Review. The objective of the recommendations made by the AEMC was to improve transparency, contestability and clarity in the connections frameworks, as well as to enhance the transmission planning and decision making frameworks. The AEMC is undertaking detailed consultation with stakeholders, with a draft determination expected in late 2016.

#### *Five Minute Settlement*

This year the AEMC started assessment of a rule change proposal to reduce the time interval for settlement in the wholesale electricity market from 30 minutes to five minutes. Settlement refers to the exchange of money for electricity supplied and consumed. The proposed change would align the interval for settlement with the five minute interval used to schedule the supply of electricity to the market. Under the proposed change, generators would receive prices that reflect conditions in the wholesale market in each five minute period. Retailers and large consumers could choose to pay the five minute price or continue under the existing arrangements. A draft determination is expected in March 2017.



## Bidding in Good Faith

### New rules for last minute electricity market rebids

In December 2015 the AEMC introduced new rules for last minute electricity market rebids. From 1 July 2016 generators are prohibited from making false or misleading offers. If rebids are made at the last minute in response to changed market conditions, then the generator must keep a record of the reasons for those decisions. The rule changes also provide the AER with better tools to manage compliance with bidding rules and take enforcement action in cases of false or misleading rebidding.

In most circumstances, rebidding promotes efficient outcomes for consumers by enabling electricity supply to adjust to changed market conditions. However, there is a need for a strong governance and accountability framework around how rebids are made.

Some last minute bidding behaviour can lead to inefficient market outcomes if participants are deliberately delaying when rebids are made and effectively withholding information from the market. At the same time, to be effective the market needs flexibility to respond to changed market conditions.

The AEMC balanced these considerations in the rule in a proportionate response to the issues. The new arrangements are expected to lead to more efficient wholesale price outcomes in the short term, and create signals that better reflect underlying conditions of supply and demand, in the long-term interests of consumers.

### Integrating emissions reduction and energy policies

Environmental policy, which has tended to be developed externally to the energy market, can directly influence outcomes including movements in wholesale and retail prices, changes to investment incentives and risk allocation as well as the level of consumer engagement with the market. While it is the role of governments to determine environmental outcomes, such as emissions levels, the mechanism used to achieve them should be compatible with how energy markets operate.

This year the COAG Energy Council tasked the Senior Committee of Officials with preparing advice to allow the Council to better understand the potential impact of climate change policies on the NEM. The AEMC and AEMO are assisting officials with this work.

### Adoption of national frameworks across all jurisdictions

Throughout the year, AEMC staff provided assistance to both the Northern Territory and Western Australian Governments on bringing aspects of the regulation of electricity networks under the National Electricity Rules. This includes developing a legislative package to transfer the regulation of networks from the current state-based regulatory regime to the national electricity network regulatory framework to be applied by the AER. The focus has been on adopting the framework to the fullest extent possible while understanding where derogations may be required.

The AEMC became the rule maker in the Northern Territory for parts of the National Electricity Rules from 1 July 2016. The Western Australian Government is also considering adopting parts of the NEL and NER.

In the year ahead, the AEMC will continue to provide advice on the development of legislative instruments and appropriate jurisdictional derogations in Western Australia and the Northern Territory that will facilitate the adoption of national frameworks.

## Reviews: Overview of Performance

**During the year under review we undertook 15 reviews and advice papers on a range of topics.**

### Trends

Of these projects, 9 were completed and 6 were underway at 30 June 2016. We also received 210 written submissions from stakeholders in relation to the review projects undertaken this year, a small increase from last year. Of those submissions 28 were received late.

We completed 100% of reviews within original Terms of Reference timelines.

### Requests and self-initiated

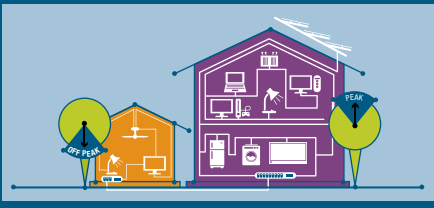
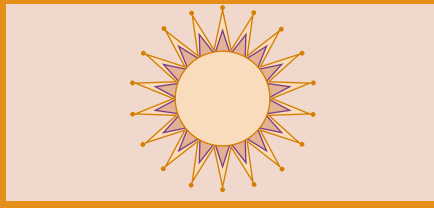

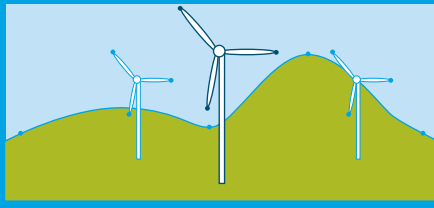

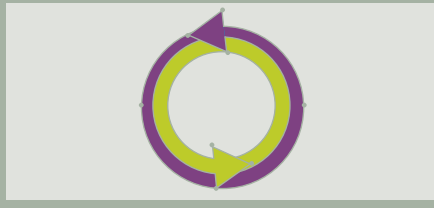
The AEMC undertakes reviews and provides advice at the request of the COAG Energy Council and as required by the rules.



We are also able to initiate our own reviews relating to the rules and we do so in limited circumstances.


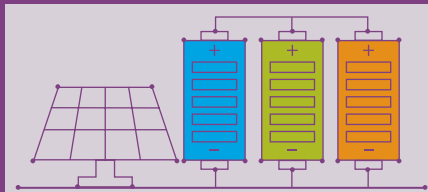




# — Strategic Priorities: Overview of key actions

KEY ACTION	STATUS	KEY ACTION	STATUS
<p>We will monitor the implementation of the distribution pricing rule change so that the new network tariffs support the intent of the rule.</p> 	<p>All distribution businesses have submitted their proposed Tariff Structure Statements to the AER outlining proposed new network tariffs under the new rule. The AER is currently consulting on the proposed new tariffs. The AEMC continues to monitor implementation and has attended several workshops and forums held by distribution businesses, the AER and governments.</p>	<p>We recommend the COAG Energy Council task us to work on whether additional pricing mechanisms are required in the energy-only market to accommodate more large-scale intermittent generation.</p> 	<p>In July 2016, under section 45 of the National Electricity Law, the AEMC initiated the System Security Market Frameworks Review. This Review will consider whether market frameworks are suitable to complement the increasing volume of renewable energy in the NEM and to enable the maintenance of power system security. The Review follows, and will be coordinated with, ongoing technical work on these and related issues undertaken by AEMO.</p> <p>We will provide a progress report to the COAG Energy Council prior to its meeting in December 2016.</p>
<p>We recommend the COAG Energy Council completes its review of the consumer protections framework, with assistance from Energy Consumers Australia and the AEMC.</p> 	<p>The AEMC helped the Council's Energy Working Group develop its advice to the COAG Energy Council in July 2015 on New Products and Services in the Energy Market which included five recommendations to ensure the energy consumer protections regime remains relevant as the electricity market develops.</p> <p>Officials have now released a second consultation paper on consumer protection requirements behind the meter.</p>	<p>The AEMC's Reliability Panel will continue working with the market operator AEMO to consider implications of a changing generation fleet on system security and reliability.</p> 	<p>AEMO has an ongoing work program to investigate how the growing contribution of renewable technologies to Australia's energy supply mix is likely to impact power system and wholesale market operations. The Reliability Panel is keeping abreast of this work so that it is in an informed position if there is a need to review generator and power system performance standards. The Reliability Panel will also participate in the AEMC's System Security Market Frameworks Review as appropriate.</p>
<p>We will continue to progress work on a roadmap for the development of gas markets in order to meet the Council's Gas Market Reform Vision.</p> 	<p>In May 2016 the AEMC provided the COAG Energy Council with a package of 15 key reforms to reduce the barriers and costs to trading and transporting gas along the east coast. The Victorian Government extended the AEMC's Review of the Victorian Wholesale Gas Market until October 2016.</p>	<p>We recommend the COAG Energy Council undertakes a review of concession policies to assess opportunities for appropriate targeting and harmonisation of the structure of these policies.</p> 	<p>The AEMC continues to be concerned that the concessions framework is no longer fit-for-purpose with material impacts on low income and vulnerable consumers. We are continuing to work with other stakeholders to progress this issue with governments.</p>

KEY ACTION	STATUS
<p>We recommend the COAG Energy Council considers tasking jurisdictions to review policies and subsidies that may support particular energy sources over others.</p> 	<p>There has been no progress by COAG Energy Council officials on this issue.</p>
<p>We will use our annual Retail Competition Reviews to better understand what information consumers need to make informed choices about their energy use. We will hold an annual roundtable on our findings.</p> 	<p>Our 2016 Retail Competition Review analysed the extent to which consumers are able to access the choices available to them, particularly as new technology expands the range of offers available. In particular, detailed analysis of how the market can best respond to the needs of different groups of consumers showed that vulnerable consumers would benefit more than any other group from greater awareness about how to find the best energy deal for their circumstances and the support services available. Our research also showed that many consumers find new technologies appealing, but there are significant gaps in consumer access to information about what these technologies could deliver for consumers. The AEMC made a number of recommendations for consideration by jurisdictions that seek to improve customer outcomes and promote competition in retail energy markets.</p> <p>The AEMC will hold a consumer forum to discuss our findings and recommendations to improve consumer awareness and engagement (to be held after the close of the year under review).</p>

KEY ACTION	STATUS
<p>We will continue to support COAG Energy Council work on better integration of climate change and energy policies. We will continue working with other agencies in relation to policy integration.</p> 	<p>The COAG Energy Council tasked the Senior Committee of Officials with providing advice to allow the Council to better understand the potential impact of climate change policies on the NEM. The AEMC and AEMO are assisting officials with this work. This advice will support the Council's engagement with the Department of the Environment and Energy's 2017 Review of the Emissions Reduction Fund and Safeguard Mechanism.</p>
<p>We will continue to progress work on new technologies focusing on implications for network business development and regulatory frameworks.</p> 	<p>The AEMC is progressing many of the recommendations made in the Integration of Energy Storage report (December 2015) including:</p> <ul style="list-style-type: none"> <li>• Initiation of a rule change from the COAG Energy Council to assess whether changes are required to support a boundary between regulated and competitive services behind-the-meter.</li> <li>• Initiation of a rule change on the extension of RIT-T and RIT-D frameworks for replacement capital expenditure.</li> <li>• Finalisation of a rule change confirming registration requirements for non-traditional generating technologies.</li> </ul> <p>Other work related to this action includes:</p> <ul style="list-style-type: none"> <li>• Conducting annual monitoring and reporting on the effectiveness of the economic regulatory framework for electricity networks in responding to the increased uptake of decentralised energy supply.</li> <li>• Initiation of an internal project to assess whether an evolution of the way distribution networks are managed and optimised is required to accommodate the widespread deployment of distributed energy resources.</li> </ul>

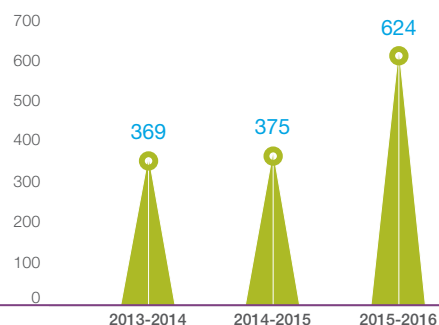
# Rules: Overview of performance

## Navigating through a market in transition

An important part of the energy market governance structure is that anyone, other than the Commission itself, can propose a rule change and have it assessed against the national energy objectives taking into account other relevant factors such as constraints set by governments. The AEMC does not propose rules except for minor changes like corrections.

The power to change how the market operates is as much in the hands of individuals, consumer and community groups as it is in the hands of individual jurisdictions, regulatory bodies and the entire energy industry.

STANDARD STAKEHOLDER SUBMISSIONS TO RULES



## Trends

During the year under review, we considered a total of 44 rule changes bearing on the National Electricity Market, natural gas markets and retail energy markets, compared with 33 rule changes under consideration in 2014-2015. Overall 25 rule changes were completed, compared with 20 last year.

- Stakeholders submitted 19 new rule requests.
- We made 14 rules amending the National Electricity Rules.
- We made 3 rules amending the National Gas Rules.
- We made 2 rules amending the National Energy Retail Rules.
- We made 3 determinations to not make a rule in response to a request (all electricity).
- No rule change decisions were challenged by judicial review.

The AEMC makes rules under the National Electricity Law (NEL), the National Gas Law (NGL) and the National Energy Retail Law (NERL). These rules impact on how companies can operate and participate in the competitive wholesale generation and retail sectors. They also govern the economic regulation of electricity transmission and distribution network services and gas pipelines.

The rule making test that we apply, and must follow under law, is whether making a rule will, or is likely to, contribute to the national energy objectives, which serve the long-term interests of consumers. Our reasons for making (or not making) a rule, including how our decision serves the long-term interests of consumers, are published in the final rule determination for each rule change on our website. Our decisions are also subject to judicial review.

## Rule making timeframes

We seek to complete rule change processes as quickly as possible while recognising the importance of appropriate consultation with stakeholders to achieve the right outcomes for consumers.

The rule change process must be undertaken within the statutory timeframes required by the national energy laws including the NEL, NGL and NERL.

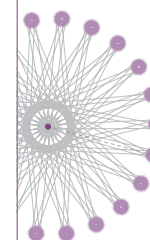
The standard timeframe under law for a rule change is approximately 130 working days. We must commence as soon as practicable after receipt of requests. To facilitate a constructive consultation and encourage targeted feedback we commence rule changes after an initial period of analysis.

Before we start the statutory process we make practical decisions on whether

standard timeframes are achievable given the request's scope and competing work priorities. We are able to extend the timeframe both at the start of a project and throughout in certain circumstances which are specified in the national energy laws.

In 2015-2016 we granted one rule change a longer timeframe at initiation. This was the Local Generation Network Credits rule change request from the City of Sydney, Property Council of Australia and Total Environment Centre. This was done because of the complexity of issues involved and to allow us to provide stakeholders with a longer consultation period and give proper consideration to the issues and their implications.

Several rule change processes were extended after initiation. While this lengthened the



time taken to make the rule, these extensions were granted after consultation with stakeholders to assess the complexity of the issues. Based on that feedback and the Commission's consideration of the issues to be addressed, the processes were subsequently extended to allow for sufficient consultation, analysis and, where required, rule drafting.

There are two exceptions to the standard rule making process: the expedited rule making process and the fast-track rule making process. The Commission may expedite the rule making process if the request is for a non-controversial or urgent rule (as those terms are defined in the national energy laws). Under the expedited process there is only one round of consultation on the rule change and no draft determination is made. A final determination must be

made within six weeks of commencement of the rule change.

The rule making process can be fast tracked where there has been adequate previous public consultation on proposed rule changes by a market regulatory body or if the request arises from an AEMC review. Under the fast-track process there is no consultation period before the AEMC makes a draft rule determination. The fast-track process is nine weeks shorter than the standard process.

Rule changes by category

Standard

Nineteen standard rule changes were completed in the year under review compared with 17 last year. These rule changes were completed within 188 days on average, compared with 156 days on average last year. This increase is largely attributable

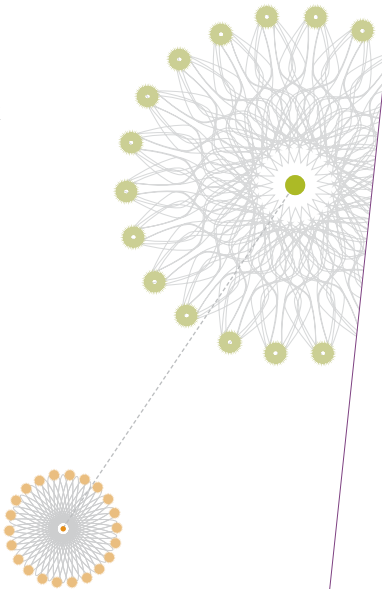
to two particularly complex rules: Expanding Competition in Metering and Bidding in Good Faith. Both of these took over 400 days to complete. This also reflects the fact we extended a number of rule changes after initiation. The decisions to extend were informed by stakeholder views on the complexity of the issues under consideration.

Expedited

In 2015-2016 the process for six rule changes was expedited. Four of these were completed within six weeks. We extended the timeframe by two weeks for two rule changes so they could be progressed as quickly as possible – and to avoid the length of the standard rule making process which was not required for these rule change requests. We have sought to make greater use of the expedited process, where appropriate.

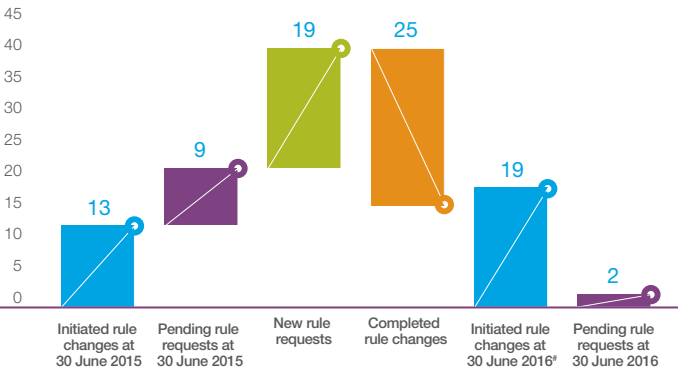
Fast tracked

No rule changes were fast tracked.



RULE REQUEST PROPONENTS

Proponent	Requests in 2015-2016
COAG Energy Council	8
Australian Energy Market Operator (AEMO)	2
Australian Energy Regulator (AER)	1
AGL Energy	1
City of Sydney, Total Environment Centre and Property Council of Australia	1
ENGIE (Formerly GDF Suez Australian Energy)	1
Ergon Energy Queensland	1
Jemena	1
Red Energy and Lumo Energy	1
Reliability Panel	1
Sun Metals Corporation	1

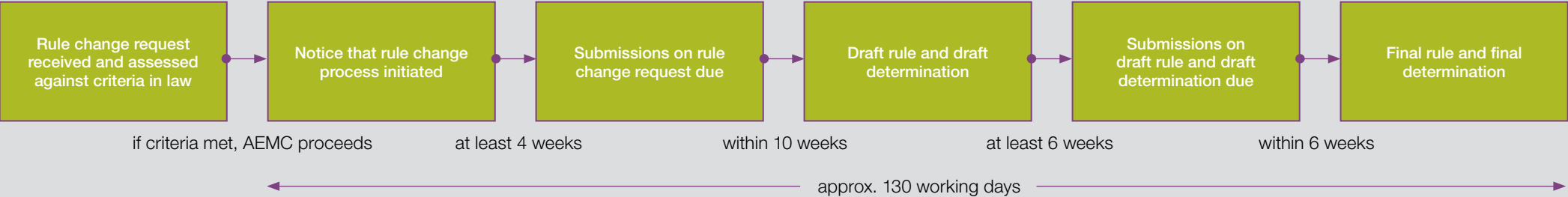


# Some single requests have resulted in the initiation of multiple related rule changes (electricity/gas/retail)

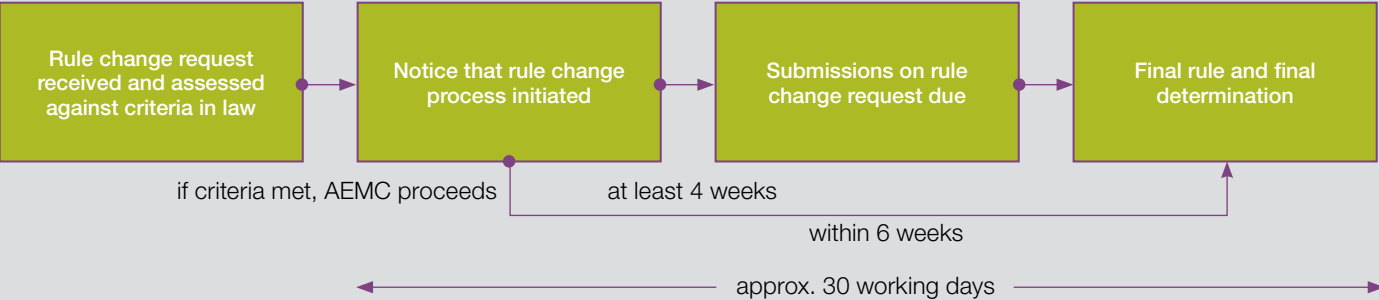


Managing rule making timeframes

Standard rule change process



Expedited rule change process



Fast track rule change process



Performance

This year we:

- received no judicial review challenges to our rule decisions;
- initiated 47% of new rule requests within four months, compared with 17% last year; and
- completed 68% of our rule changes without extension\* compared with 80% in 2014-2015. Extensions after initiation were informed by stakeholder views on the complexity of the issues.

\*other than Commission-approved extension at initiation

Timeliness

We received 19 new requests to change rules this year, compared with 16 last year.

Our timeliness in starting rule change requests has improved as a result of new internal processes to streamline the initiation process. This year we initiated 47% of rule changes within our target four month timeframe, compared with 17% last year. We also made 100% of rule changes within statutory timeframes.

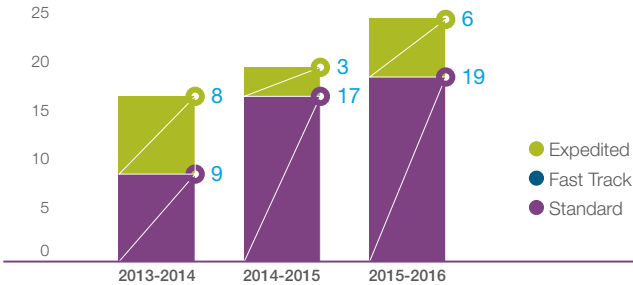
However, we required more extensions than last year due to the detailed technical issues raised in some of our more complex rule changes such as Bidding in Good Faith and Expanding Competition in Metering. We completed 68% of rule changes without extension after initiation this year, compared with 80% last year.

We are aware of our stakeholders’ desire for us to make rules faster and, generally, in less than six months. We continue to focus on increasing our timeliness while still allowing for comprehensive consideration of relevant issues, extensive stakeholder consultation and development of a robust rule design. To increase transparency, we now publish

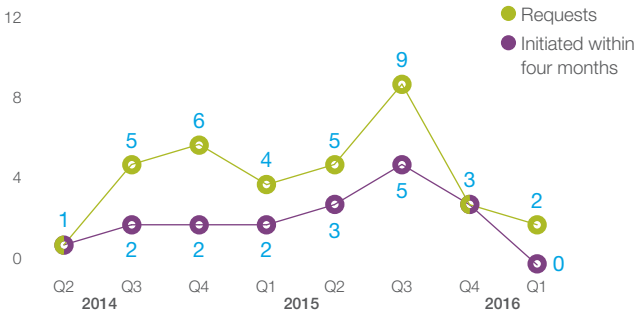
all rule change requests and expected initiation dates on our website once they have been received. We also publish a work program calendar with expected consultation dates and dates for determinations. This also includes a notice when a project is extended.

There were no challenges to our rule change decisions this year.

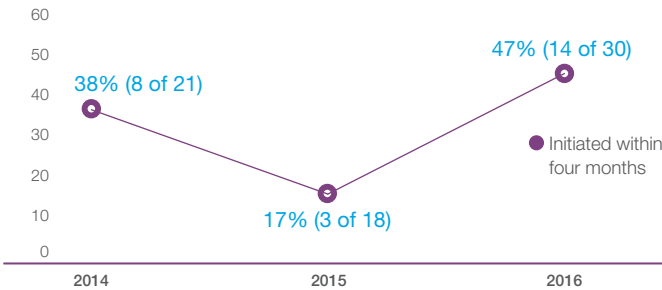
CATEGORIES FOR COMPLETED ELECTRICITY AND GAS RULE CHANGES



NEW RULE REQUESTS BY QUARTER 2014-2015 AND 2015-2016



TIME WITHIN WHICH NEW RULE CHANGES ARE INITIATED



# — Reliability Panel

The Reliability Panel defines the power system security and reliability standards necessary to provide a reliable and secure electricity market. The performance of the National Electricity Market is measured and reported against these standards.

The Reliability Panel was established by the AEMC under the National Electricity Law (NEL). It determines standards and guidelines which help maintain a secure and reliable power system for consumers.

The NEL sets out the key responsibilities of the Panel.

These include:

- to monitor, review and report on the safety, security and reliability of the national electricity system; and
- at the request of the AEMC, to provide advice in relation to the safety, security and reliability of the national electricity system.

The Panel's work program is largely driven by the terms of reference received from the AEMC and from requirements in the National Electricity Rules (NER).

## Reliability

Reliability refers to the system capacity to generate and transport sufficient electricity to meet consumer demand in the NEM. This requires both adequate supply of generation to meet customer demand, as well as a reliable network to transport electricity to end-users.

The reliability standards and settings are determined by the AEMC, based on advice from the Reliability Panel and in accordance with the NER. The reliability standard is a planning standard that is used to indicate to the market the required level of supply and demand adequacy on a regional basis. The reliability settings are the price

mechanisms under which the wholesale market operates: the market price cap; the cumulative price threshold; and the market floor price.

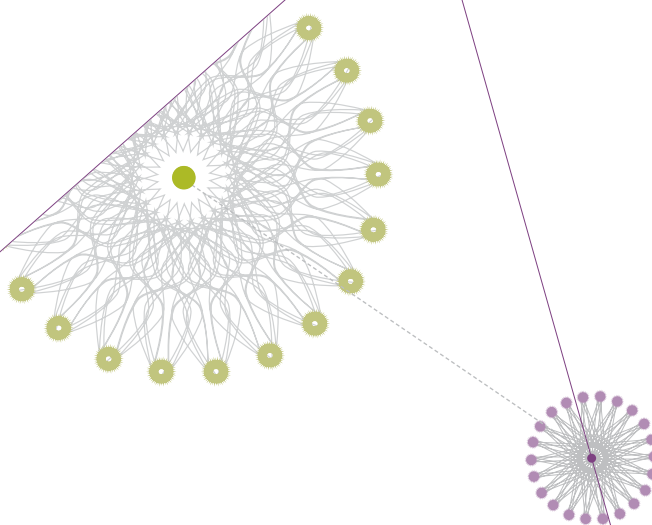
AEMO is responsible for implementing the reliability standard through a variety of processes.

The Panel last reviewed the reliability standards and settings in 2014, and concluded that the current settings are consistent with the promotion of market arrangements that encourage efficient investment and flexibility. The Panel will commence its next review in 2017.

## Security

Security of supply means that the system is operating or managed so that all vital technical parameters such as voltage, equipment loading and power system frequency are all within design limits and/or standards and that these parameters remain stable – even following a credible event (an event which AEMO considers reasonably possible given the circumstances).

The Panel is required to develop and publish principles and guidelines that determine how AEMO should maintain power system security.



## Membership of the Panel

The Panel is chaired by AEMC Commissioner, Mr Neville Henderson. Its members are broadly representative of all stakeholders interested in the operation of the power system and electricity market including generators, network service providers, retailers, consumer groups and the power system and market operator.

The AEMC also has some discretion to appoint up to three members who may have expertise in areas that are not otherwise represented by other Panel members.

## Reliability Panel work program

The Panel's work program is set by requirements in the rules and through terms of reference received from the AEMC.

## Reviews

In 2015-2016 the Panel:

- Published its draft report for its annual review of market performance for the 2014-2015 financial year. In this period, the Panel found that there was no unserved energy in any region of the NEM, and that any system security and safety issues were effectively managed by AEMO and network system operators.
- Commenced its review of the System Restart Standard, which sets out several key parameters for system restoration following a major supply disruption, including the maximum time within which system restart ancillary services are required to restore supply to generators in an electrical sub-network to a specified level. The draft report and draft standard is due to be published in August 2016, followed by the publication of the final report in November 2016.

## Monitoring the security and reliability implications of more renewable generation

The Reliability Panel has kept abreast of reliability and security developments, in particular the implication of changes to the generation mix with increasing levels of large-scale intermittent generation.

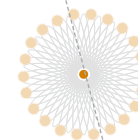
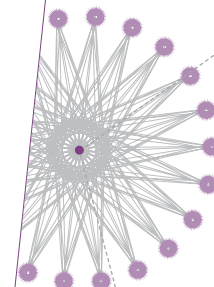
South Australia has Australia's highest penetration of renewables. More than 40 per cent of the state's electricity generation now comes from renewables, primarily wind and solar. These renewable generation sources have technical characteristics that differ from the conventional plant they are replacing. One of the key impacts is on frequency. Traditional synchronous generators provide inertia that helps keep power system frequency within technical limits. Non-synchronous generators such as wind and solar do not typically provide inertia.

Regions with high levels of non-synchronous generation, such as wind, are more reliant on interconnection with other regions of the NEM, and so can face increased risks if they are 'islanded', for example through a temporary fault on an interconnector. In the future, to manage these risks, more inertia and voltage support may be required within regions. This could be obtained in a range of ways, for example through different generator performance standards or via additional types of ancillary services.

AEMO has an ongoing work program to investigate how the growing contribution of

renewable technologies to Australia's energy supply mix is likely to impact power system and wholesale market operations. The Panel is keeping up-to-date with this work so that it is in an informed position if there is a need to review generator and power system performance standards. These matters are also reported on in the Panel's annual market performance review.

Renewable generation sources have technical characteristics that differ from the conventional plant they are replacing.





## Panel members

### MR NEVILLE HENDERSON (CHAIR)

Mr Henderson, Commissioner at the AEMC, has an extensive professional background in energy and utilities. He came to the AEMC from his former position as an Executive Director with PricewaterhouseCoopers (PwC) where he provided advice to both public and private sectors on energy utility operation, regulation, strategic and business planning, electricity and gas industry restructuring, and market issues. Prior to joining PwC Mr Henderson was with the National Grid Management Council from 1994 to 1997, where he led the development of market and trading arrangements for the National Electricity Market.

### TREVOR ARMSTRONG

Mr Armstrong, Acting Chief Executive Officer of Ausgrid, joined the organisation as a cadet engineer in 1986 and has spent the last 30 years working in various roles including Executive General Manager System Planning & Regulation, and Executive General Manager

Transmission & System Operations. He was appointed to the role of Ausgrid's Chief Operating Officer in 2012 and has recently been appointed Acting Chief Executive Officer. Mr Armstrong has an Electrical Engineering Degree, is a Fellow of the Institute of Engineers, a Graduate of the Australian Institute of Company Directors and a Director of CIGRE.

### LANCE BALCOMBE

Mr Balcombe, Chief Executive Officer of TasNetworks, is the transmission network service provider representative on the Panel (until December 2018). He was appointed Chief Executive of TasNetworks in 2013. Mr Balcombe was previously Chief Financial Officer at Hydro Tasmania where he held senior management positions for 13 years.

### MURRAY CHAPMAN

Mr Chapman is the Group Manager Market Policy Development at AEMO. With more than 35 years' experience in power system

operations, transmission, and the development of electricity markets, Mr Chapman played a central role in the development and operation of a state electricity market in NSW in the early 1990s and contributed to the development of the National Electricity Rules and later, the implementation of the National Electricity Market in the mid-to-late 1990s. He has worked with AEMO since its beginning in 2009, and prior to that held various senior roles with NEMMCO from its inception in 1997.

### MARK COLLETTE

Mr Collette, Executive Energy at EnergyAustralia, has been appointed as a discretionary member on the Panel. He has worked for EnergyAustralia since 2003 where he leads all electricity generation and energy trading activities. In former roles, Mr Collette has held executive responsibility for wholesale markets, corporate strategy and development, policy and government affairs and commercial and industrial sales.

### ROYCE DESOUSA

Mr DeSousa is responsible for Energy at Visy Industries, a multinational packaging and recycling company and is a discretionary member of the Panel. His focus includes energy supply, energy efficiency, carbon management, and diversified energy generation including renewable energy. Prior to working in energy, Mr DeSousa was a process, project and maintenance engineer in Visy's Paper Mills.

### GAVIN DUFTY

Mr Dufty is currently employed as the Manager of Policy and Research at St Vincent de Paul Society, Victoria, and represents end-use customers of electricity on the Panel. He has worked in the community welfare sector for over 20 years. During this time Mr Dufty has produced a number of reports focusing on the cost of living with a particular focus on energy.

## MILES GEORGE

Mr George, Managing Director of Infigen Energy, is the Generator representative on the Panel. He has over 20 years' experience in the infrastructure and energy sectors in Australia, the United States and Europe. Over the past 15 years Mr George has been focused on business development, investment, financing and management in the renewable energy industry.

## CHRIS MURPHY

Mr Murphy, Strategic Advisor at Meridian Energy, and General Manager Energy Market Interfaces at Telstra, is a discretionary member of the Panel. In previous roles in the electricity industry he has been responsible for distribution revenue, system-wide load forecasting, tariff development and regulatory affairs.

## RICHARD WRIGHTSON

Mr Wrightson, General Manager Wholesale Markets, is the market customer representative on the Panel. He has worked for AGL with the Wholesale Markets team, being responsible for the procurement, trading and price risk management of AGL's wholesale electricity, gas, oil, carbon and renewable requirements. In his former roles, Mr Wrightson has worked on a wide range of issues including setting up retailing, risk management, power station dispatch and wholesale trading activities.

Member	Organisation	Market Segment	Term expiry	Panel meetings	
				eligible	attended
Current members as at 30 June 2016					
Neville Henderson (Chairman)	Commissioner, AEMC	AEMC	18 Oct 2017	10	10
Trevor Armstrong	Acting Chief Executive Officer, Ausgrid	DNSPs	31 Dec 2016	10	9
Lance Balcombe	Chief Executive Officer, TasNetworks	TNSPs	17 Dec 2018	6	5
Murray Chapman	Group Manager, Market Policy Development, AEMO	AEMO	ongoing	8	7
Mark Collette	Executive Energy, EnergyAustralia	Discretionary	31 Dec 2018	6	6
Royce DeSousa	General Manager – Energy and Sustainability, Visy	Discretionary	31 Aug 2018	10	10
Gavin Dufty	Manager Policy and Research, St Vincent de Paul Society, Victoria	End use customer of electricity	31 Dec 2016	10	9
Miles George	Managing Director, Infigen Energy	Generators	17 Dec 2018	6	5
Chris Murphy	Manager Commercial and Regulatory, Meridian Energy	Discretionary	31 Dec 2017	10	9
Richard Wrightson	General Manager Energy Portfolio Management, AGL Energy	Market Customers	31 Dec 2016	10	7
Members whose term finished during the financial year					
Stephen Davy	Chief Executive Officer, Hydro Tasmania	Generators	17 Dec 2015	4	4
Nick Sankey	Managing Director, Global Head of Project Finance, Commonwealth Bank	Discretionary	31 Dec 2015	4	2
David Swift*	Executive General Manager, Corporate Development	AEMO	n/a	2	2
Merryn York	Chief Executive, Powerlink Queensland	TNSPs	31 Dec 2015	4	2
Observers					
Stephen Jarvis	TasNetworks for Lance Balcombe	n/a	n/a	1	1
David Bowker	Hydro Tasmania for Stephen Davy	n/a	n/a	1	1
Lance Balcombe	TasNetworks (prior to his appointment to the Panel)	n/a	n/a	1	1

\* Replacement AEMO member from 19 February 2016 until 15 April 2016 while Mr Chapman was on leave.

An abstract network diagram on a purple background. It features a dense cluster of white lines on the left side, which radiates outwards to connect with several circular nodes. These nodes are arranged in a diagonal line from the top-left towards the bottom-right. Each node is a dark circle with a complex, sunburst-like pattern of fine white lines radiating from its center. The background is a solid purple color with a subtle grid of thin white lines.

# Stakeholder engagement

# — Our approach

Effectively engaging with people and organisations with a stake in Australia's energy market provides valuable input to the AEMC's rule making and our strategic advice to governments. We maintain regular dialogue with our stakeholders to increase our understanding of key energy issues and concerns affecting the community, businesses and industry, and to help inform our decision making.

## Stakeholders help shape Strategic Priorities for energy market development

In our role as policy adviser to the COAG Energy Council, the AEMC conducts a review of Strategic Priorities every two years. The Strategic Priorities, which we published in November 2015, are developed through an extensive consultation process with consumer groups, market participants and policy makers on what matters to them in relation to energy market development.

Through this process, our stakeholders have worked with us to identify the key areas of policy focus to help

shape the Council's agenda and the work of the energy market bodies, particularly the AEMC. Stakeholders provided input through Thought Leaders events, Consumer Priorities forums, submissions to our discussion paper and participation in our Strategic Priorities forum which was streamed live online, as well as through meetings with our Commissioners and senior staff.

This process is an example of how stakeholders help shape our work program. More directly, the governance framework in the Australian energy market enables anyone to submit a rule change request to the AEMC for consideration. This is a way that regulatory frameworks can keep pace with the needs of our stakeholders. If a consumer group or business sees a problem in the market, they can ask the AEMC to look at it, and subject to our

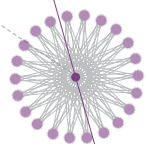
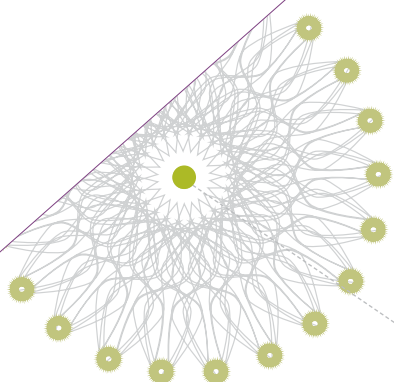
decision making framework under the National Electricity and National Gas Objectives, we can revise the rules.

Outside of the AEMC's business as usual processes, stakeholders are also involved in a range of work being undertaken by the AEMC and the other market bodies that looks at the implications of significant market changes, such as the increasing integration of battery storage. Our work program in technology-related areas is ongoing and we will continue to engage closely with stakeholders on market developments.

## Our growing stakeholder base

Our stakeholder base is broadening in the wake of market and technological change, rising consumer participation and the growth of demand response businesses.

In particular, the structural change underway in Australia's gas markets has seen significant expansion in our engagement with gas market stakeholders as we progressed with our East Coast Wholesale Gas Market and Pipeline Frameworks Review and our Victorian Declared Wholesale Gas Market Review. These two major reviews have involved over 140 meetings, six workshops, a public forum, two working groups and an advisory group which has met every two months throughout the project. In addition, we published seven discussion papers and four





reports which generated more than 180 submissions from stakeholders. We expect this intensive engagement with gas stakeholders will continue over the coming years as gas markets are reformed.

This year the AEMC expanded its engagement with the Western Australian and Northern Territory governments and energy market bodies as these jurisdictions work towards the adoption of elements of the National Electricity Law framework. While all the states and territories are exploring the implications of the national energy reform agenda for their individual circumstances, an overarching goal of the COAG Energy Council is for the harmonisation of nationally agreed arrangements where possible. This goal guides our engagement with all jurisdictions.

A key consideration for the AEMC's stakeholder engagement this year has been to increase our exposure to the energy services industry including technology providers. While these players may not currently be formal market participants, through their evolving business models they have an interest in how the energy market develops. We will continue to reach out to these potential market participants through public forums, meetings and other consultation activities for specific rule change projects and also through our technology work program.

We are monitoring developments in renewable energy – the key issues and new participants – and continue to broaden our engagement with the renewable energy industry, government bodies including the Australian Renewable

Energy Agency (ARENA) and interested groups such as the Clean Energy Council and the Institute for Sustainable Futures.

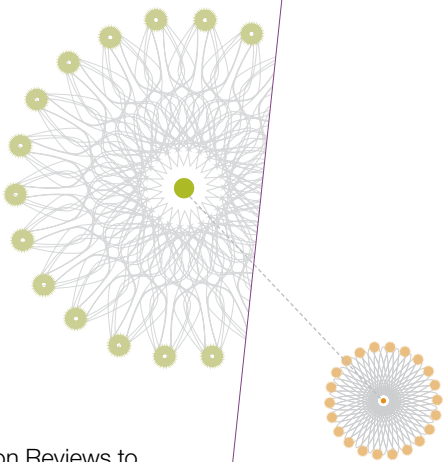
Strengthening engagement with consumers

It is critical for consumers and their representatives to be engaged in our consultation processes so their views can be properly considered. Our work program reflects this – particularly in the pursuit of reforms to increase consumers' engagement with energy markets.

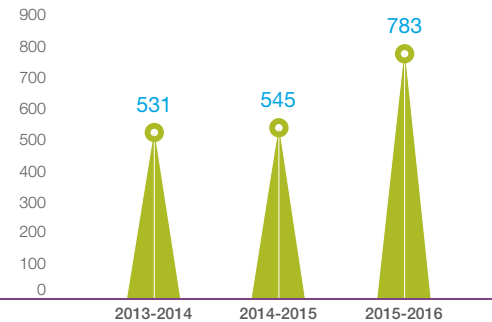
Developing meaningful ways to engage with small consumers in particular is important for the AEMC. Household consumers have historically been a difficult group to engage, and we have established consumer surveys, deliberative forums and focus groups to address this challenge. This work has been undertaken as part of our individual rule changes and reviews, including the consumer research which we incorporate into our annual

Retail Competition Reviews to understand the issues facing average consumers.

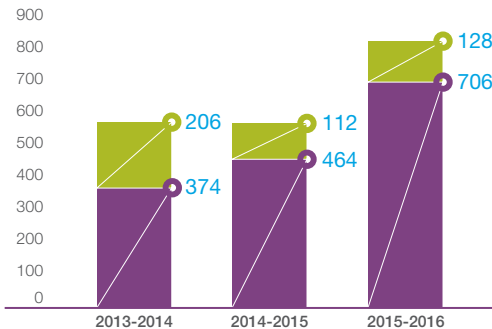
We strive to make the AEMC's work more accessible. Activities include Consumer Priorities forums, more work on plain English documents, and ongoing enhancements to the AEMC website to improve usability. We continually look for ways to improve the clarity and readability of our reports. We have expanded our use of webcasts to provide stakeholders with an additional means of engagement. Our key stakeholder forums, including the Consumer Priorities forum and Strategic Priorities forum, were both livestreamed this year with interactive participation from online participants.



STAKEHOLDER PRESENTATIONS AND MEETINGS



SUBMISSIONS RECEIVED FROM STAKEHOLDERS



We have also engaged with Energy Consumers Australia to expand the conversation on consumer priorities through meetings, forums and our participation in relevant consumer group events, such as consumer roundtables.

Large energy consumers and their representatives such as the Energy Users Association of Australia (EUAA) engage with the AEMC primarily about energy prices – especially export-oriented businesses whose competitive advantage is impacted by changing input costs. These businesses are interested in specific AEMC projects, and we have engaged with them this year through these projects. A representative of large energy users is also part of the AEMC's Reliability Panel.

Engagement with international energy market bodies

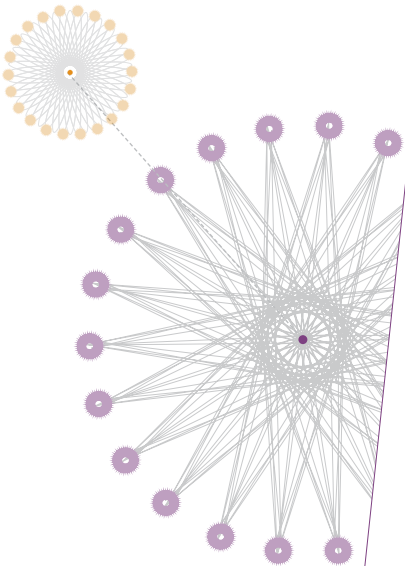
The AEMC actively engages with international energy market bodies that co-operate on global issues affecting energy markets. International engagement enables us to gain from the experience of others and also provides a forum to share insights drawn from the high-quality analytical work undertaken by Australia's own energy market institutions.

The AEMC is a member of the International Confederation of Energy Regulators (ICER) – an international body whose membership includes more than 200 regulatory authorities around the world. ICER's aim is to improve policy makers' awareness and understanding of energy regulation and its role in addressing energy regulation issues in an international context. Through ICER, regulators exchange information about good practices in energy regulation. The AEMC representative on the ICER Steering Committee is our Chief Executive, Ms Anne Pearson.

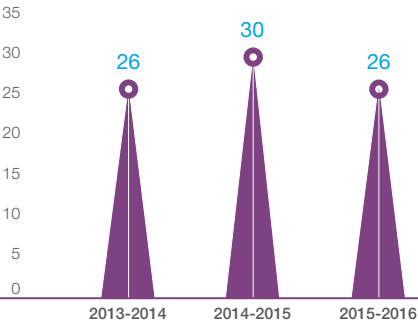
The AEMC also participates in the Utility Regulators Forum. This year Ms Pearson attended the forum held in New Zealand, where she presented on the implications of integrating increasing amounts of renewable generation into the NEM. In addition, the AEMC held discussions with New Zealand's Major Electricity Users' Group and the Electricity Authority New Zealand.

Extent of engagement

The volume of our engagement increased significantly this year, with more than 780 separate stakeholder meetings and presentations on rule change projects, reviews or energy market issues generally. We also received and assessed 834 submissions to all projects undertaken throughout the year, an increase of 31% from the previous year.



FORMAL STAKEHOLDER FORUMS AND WORKSHOPS



# AEMC Stakeholder Research: Key Findings 2016

We commissioned Newgate Research to conduct our three yearly stakeholder perceptions study which is used to inform the AEMC's business and engagement plans and priorities. There were two phases to the research undertaken between May and June 2016:

**Qualitative:** In-depth interviews with more than 50 people in senior roles from industry, government, academia and consumer groups; and

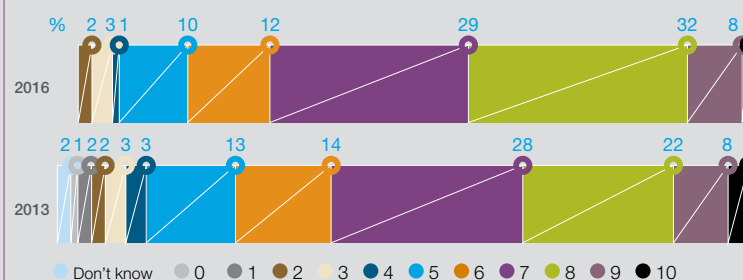
**Quantitative:** An online survey with around 250 respondents from the AEMC's broader stakeholder contact database.

## Overview

Overall, survey respondents said we are doing a good job within the bounds of our current remit. Positive opinion of the AEMC has improved significantly since the 2013 survey, as stakeholders said they recognised the organisation is continuing to deliver quality work at a challenging time. Over the period overall opinion of the AEMC has lifted and 70% of stakeholders rated our performance at 7 or more out of 10 in 2016 compared with 61% in 2013.

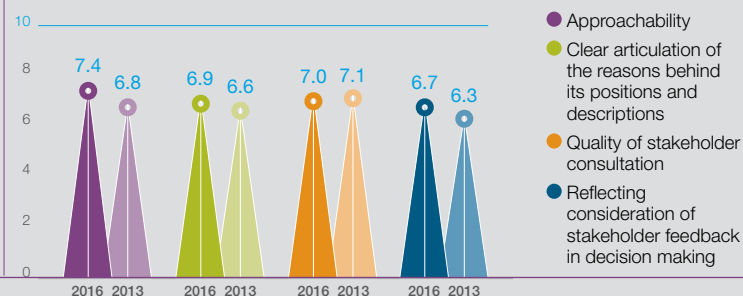
Positive opinion strengthened significantly at the top end of the scale with ratings of eight and more out of 10 increasing to 42% in 2016 from 33% in 2013. Our performance on approachability also lifted significantly to 57% from 41% in 2013. Performance on our other key attributes remained stable.

## 2016 REPUTATION SURVEY



## 2016 KEY ATTRIBUTES SURVEY

Average rating out of 10



## Positives

In summary, the AEMC's key strengths were generally described in the following terms:

- Confidence in the quality, rigour and robustness of the AEMC's work and processes – analysis is very thorough, creating confidence that decisions and determinations are evidence-based;
- Knowledge, technical expertise, professionalism and capability of staff – the competence of staff was seen as underpinning the quality of work produced by the AEMC;
- Quality of AEMC engagement and consultation – acknowledging the openness of the AEMC to feedback;
- Quality of communications has noticeably improved since the last reputation survey – examples cited included the regular email newsletters, infographics, fact sheets and summaries at the front of detailed reports;
- Ethics and integrity – the ability to deliver on our remit transparently and with credibility, while maintaining independence; and
- Leadership – in particular the specialist knowledge and skills of the Commissioners and senior management.

## Areas for improvement

The main concerns expressed by participants about the AEMC were:

- A desire to see the organisation go further in developing a framework which reflects new market realities and dynamics and which levels the field for all market participants;
- A need for the AEMC to be more assertive in directing public debate and arguing for change in relation to the future of the energy market;
- Timeliness in delivering rule changes and reviews reflected in a desire for us to identify ways to work faster while maintaining the quality of our work; and
- The need to broaden and deepen stakeholder engagement particularly with smaller consumer groups and end-customers and conduct more informal, flexible engagement and consultation.

## AEMC engagement processes

We are committed to making the full extent of our work program more accessible to all our stakeholders both in terms of the transparency of the statutory consultation process as well as the quality of our documents and online materials. These initiatives include:

- Publication of guidelines on [www.aemc.gov.au](http://www.aemc.gov.au) to help stakeholders better understand the AEMC's obligations, and structure rule requests so that requirements are met and requests are able to be properly considered. How to Lodge Submissions Guidelines are also available. We are continuing to develop documentation explaining our approach to decision making for publication on our website.
- Forming stakeholder advisory groups for some more complex projects.

- Industry and consumer representatives are also featured as invited speakers to put forward their members' views at public forums which are held as part of the review and rule change process.
- The AEMC's consultation involves detailed briefings and meetings for an exchange of views at key points in the decision-making process. Industry and consumer groups are priority participants in these conversations.
- Stakeholders are kept informed of AEMC decisions and news directly through our weekly email newsletter and website publishing of all documents including determinations, reports, supporting publications and submissions.
- Notices of public meetings are posted to the AEMC website and distributed to stakeholders by email.

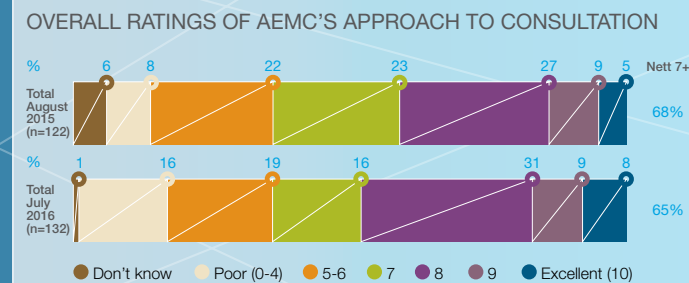
- The AEMC uses plain English communication packs including two-page project summaries, media releases, infographics and fact sheets for all parts of the work program.
- Interactive webcasts are used when appropriate to reach more stakeholders and provide a convenient option for people who are not able to travel for time or cost reasons.
- To improve the transparency of our processes the AEMC this year started publishing a monthly calendar on its website that allows stakeholders to track all rule changes and reviews underway. The website also now has an historical calendar which tracks the start-to-end progress of strategic projects, including the date the AEMC receives the review's Terms of Reference, through to the consideration of our recommendations by the COAG Energy Council, the submission of rule change proposals, and the AEMC's final determination.

## Stakeholder feedback on our consultation processes

The AEMC's consultation process surveys are designed to measure stakeholder satisfaction with the AEMC's engagement and communications and identify ways in which engagement can be improved. They meet the AEMC's commitment to the COAG Energy Council to evaluate 25% of its reviews and rule changes.

This year ten separate consultation surveys were sent to stakeholders who were actively involved in ten specific reviews or rule changes nominated by the Commission. In total, 613 stakeholders were invited to participate and the overall sample was n=132, representing a response rate of 22%.

The majority thought the AEMC's overall approach to the review or rule change they participated in was quite or very good (65% gave a rating of 7 or more out of 10). The average rating was 6.7.







# Organisation

# — People

The AEMC has a focus on a collaborative and connected culture that enables us to work towards our vision of flexible and resilient energy markets that benefit consumers. We are future proofing our workforce by strengthening our ability to recruit, retain and develop our people.

## Recruitment

In the year under review our staff numbers increased from 70 to 77 (including both full time and part time employees), in line with our expanding work program. We recruit both within Australia and from overseas, targeting applicants with specific energy sector expertise as well as interpretive and analytical skills.

Our staff profile comprises a team of specialists including economists, engineers, lawyers, regulatory and policy advisers, complemented by corporate services staff with expertise in IT, finance and people management.

This year our staff turnover was 31%, which is above our target of between 10 and 20%. We will continue to focus on retaining quality staff through ensuring our people have the opportunity to develop their skills, undertake intellectually fulfilling work and experience a caring and professional culture.

## Equal opportunity

We are committed to a diverse workplace that reflects our stakeholders and the wider Australian community. An inclusive work environment is essential to attracting and retaining staff and supports people in reaching their full potential.

The number of women as a proportion of our total workforce is 57% which is consistent with previous years.

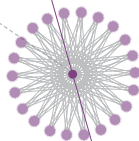
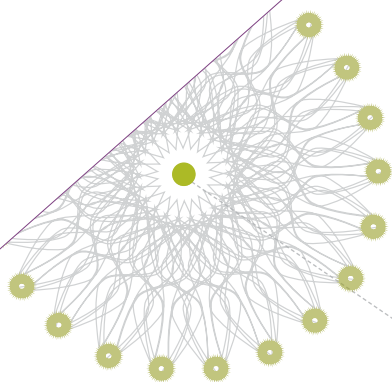
We support and promote flexible working arrangements, with 13% of our staff employed on a permanent part time basis.

## Building capabilities

The AEMC uses a comprehensive performance management framework that details a set of behaviours which are critical to our employees' success. The framework is designed to enable staff to develop core competencies and track their progress.

All staff have a Personal Development Plan, which encourages staff to consider appropriate learning opportunities as part of their planning. Individual development is supported through our Learning and Development program which includes in-house presentations and structured

It is more important than ever that AEMC continues to attract and retain outstanding people who want to be at the forefront of understanding the new energy market dynamics.



coaching as well as access to formal training courses. Personal Development Plans are reviewed biannually.

We encourage staff to further their careers through secondments. This year AEMC staff have been seconded to the Commonwealth Department of Environment, the Western Australian Department of Finance, the NSW Department of Industry, the Commonwealth Department of Industry and AEMO.

### Employee feedback

We conducted a survey to seek our employees' views on engagement, communication, learning and development and reward and recognition. Following the survey, we held a series of focus groups to increase our understanding of the feedback. Key

observations and thoughts of our people have informed a number of retention initiatives currently under development.

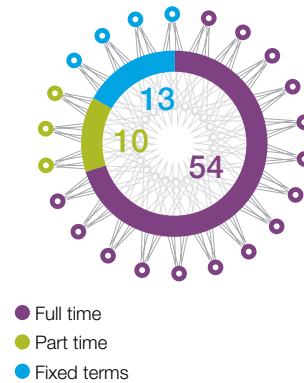
### Health and safety

We are committed to maintaining a safe and healthy working environment. We have maintained our high standard of health and safety with no work-related injuries in 2015-2016.

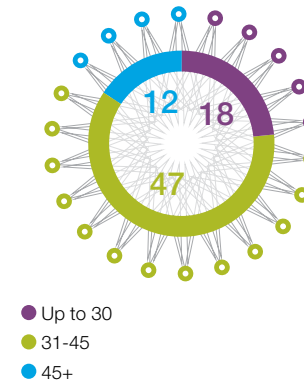
### Wellbeing

The AEMC recognises the importance of work-life balance. We provide regular educational seminars on physical and mental wellbeing including heart health, correct posture and healthy eating, as well as a winter vaccination clinic. Staff can also access the Employee Assistance Program which provides confidential counselling services to staff and their families.

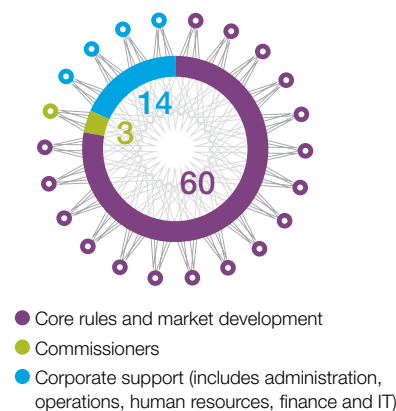
EMPLOYMENT STATUS



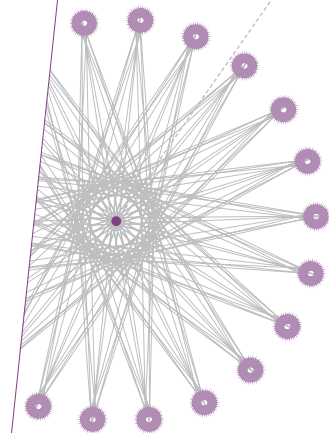
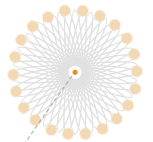
EMPLOYEES BY AGE



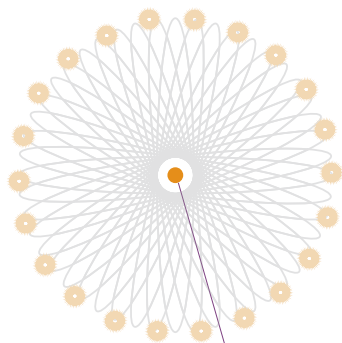
NUMBER OF STAFF BY ROLE



An inclusive work environment is essential to attracting and retaining staff and supports people in reaching their full potential.



# — Governance



## Legislative framework

The AEMC is a body corporate established under South Australian law and its key functions and powers in relation to the making of national energy rules and market reviews are set out in the national energy laws (Part 4, National Electricity Law, Part 2, National Gas Law and Part 9, National Energy Retail Law) and the Australian Energy Market Commission Establishment Act 2004 (SA).

In addition to its powers and functions under these laws, the AEMC is required to comply with a number of South Australian, New South Wales and Commonwealth laws relating to such matters

as record keeping, information disclosure, financial reporting and employment related matters. For example, the AEMC complies with the Fair Work Act 2009 (Cth), New South Wales work health and safety laws and South Australian laws such as the Freedom of Information Act 1991 (SA), the Public Finance and Audit Act 1987 (SA) and the State Records Act 1997 (SA).

## Memoranda of Understanding

To assist in the performance of its operations, the AEMC has entered into Memoranda of Understanding (MOU) with the following organisations:

- Australian Energy Regulator
- Australian Competition & Consumer Commission
- National Competition Council
- Australian Energy Market Operator
- Essential Services Commission of Victoria

- Independent Competition and Regulatory Commission of the ACT
- Office of the Tasmanian Economic Regulator
- Energy and Water Ombudsman New South Wales
- Energy and Water Ombudsman Queensland
- Energy and Water Ombudsman (Victoria) Limited
- Energy and Water Ombudsman (South Australia) Limited
- Energy Ombudsman Tasmania.

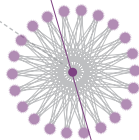
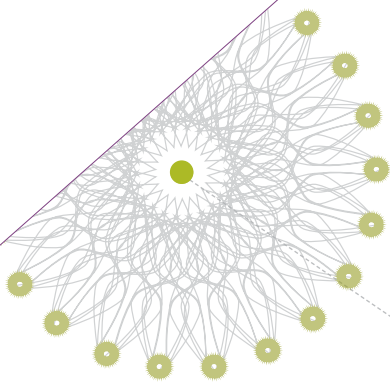
## Corporate responsibility

AEMC Commissioners are appointed by Australia's state, territory and federal governments to make the rules under the national energy laws; and to advise governments on overall energy market development. The Commissioners are

supported by the AEMC's senior management team and staff. Together they discharge rule making and market development roles in line with the AEMC's Code of Conduct which requires AEMC staff to act with fairness, honesty, impartiality and integrity in all our dealings.

## Review of Governance Arrangements for Australian Energy Markets

In December 2015 the COAG Energy Council responded to the final report on the Review of Governance Arrangements for Australian Energy Markets. The review fulfills a COAG commitment to evaluate energy market governance arrangements five years after their commencement (AEMO, the final of these institutions, was created in 2009).





The Review found that the division of functions established by the current governance arrangements remains appropriate for serving the needs of the Australian Energy Market Agreement and the national energy objectives.

The AEMC is now working with officials to implement a range of recommendations to fine-tune energy market arrangements to improve the timeliness and transparency of rule changes and reviews.

Some of these amendments to rule change processes will require legislative changes to the national energy laws. The AEMC is working with officials to develop proposed legislative changes for the Council's consideration.

The AEMC has already progressed a range of initiatives as a result of the Governance Review.

This includes increasing transparency by publishing additional timeliness tracking data for rule change requests and reviews on our website. In addition, the Governance Review recommended that new processes be developed for the AEMC to provide strategic advice to the Council. The AEMC is working with officials to develop a framework for the nature and frequency of this advice.

We will continue to work with the COAG Energy Council and officials to progress recommendations arising from the Review.

Key performance indicators

The AEMC's Statement of Intent sets out how the AEMC will meet the COAG Energy Council's expectations through its strategic priorities and work program. It also sets out the AEMC's deliverables and performance indicators to measure its performance in meeting those expectations.

Our KPIs cover these areas:

- organisational development and budget management;
- progress on the work program; and
- engagement with stakeholders.

The table on page 52 shows our performance for the 2015-2016 year.

Performance

We met our performance targets for Key Performance Indicators this year with the following exceptions:

- Staff turnover was again higher than we would like at 31% in the year under review. We remain focused on attracting and retaining high quality staff through a range of measures to ensure the AEMC is highly regarded as an employer.

- Our timeliness in initiating rule change requests improved significantly. We initiated 47% of requests within four months, up from 17% last year. We will continue to focus on streamlining our processes and also addressing staff resourcing challenges as we work towards achieving our target of 75% of requests initiated within four months.

The Commission and Senior Management Team

The three Commissioners exercise the AEMC's statutory rule making and market development functions, subject to some delegations as explained below.

Most of the functions relating to the management and day-to-day running of the organisation are the responsibility of the Chief Executive and the senior management team. The Commission retains the majority of the statutory rule making powers and market development functions, and

is also responsible for the AEMC's strategic direction. The Chief Executive and senior management team have delegations in relation to some statutory decisions, including initiation of rule changes, and a range of other operational matters, including the employment of staff and engagement of consultants.

The Commissioners review the corporate governance framework of the organisation,

overseeing the development of the AEMC's Strategic Priorities and business planning, and approving corporate development initiatives as proposed by the Chief Executive with the senior management team. The Commission holds monthly organisational meetings to review operational matters. In terms of risk management and reporting, the Commissioners review the AEMC's budget; monitor its financial performance; and consider and approve the annual financial statements.

COMMISSION STATUTORY AND GOVERNANCE MEETINGS 2015 - 2016					
Commissioner	Current term	STATUTORY MEETINGS		ORGANISATIONAL MEETINGS	
		Eligible	Attended	Eligible	Attended
Neville Henderson	19 October 2014 to 18 October 2017	37	36	12	11
Brian Spalding*	19 April 2016 to 18 April 2019	37	35	12	11
John Pierce	2 June 2015 to 1 June 2020	37	35	12	11

\*Dr Spalding's term of appointment was renewed on 19 April 2016.

STATEMENT OF INTENT KEY PERFORMANCE INDICATORS

Area	Measure	2013-2014	2014-2015	2015-2016
<b>Organisation</b>				
Budget management	Annual expenditure is within +/- 5% of initial budget	2%	-1%	-5.2%
Staff management	Staff turnover, on average, of between 10% and 20% per year (to reflect proactive management of underperformance and retention of key staff)	13%	30%	31%
Staff development	100% of staff have objectives and personal development plans which are reviewed annually	100%	100%	100%
Effective governance	Annual management review of risk assessment framework and implementation of appropriate internal audit work program	Completed	Completed	Completed
<b>Work program</b>				
Rule requests	75% of requests initiated with four months of receipt	43%	17%	47%
	100% of rule changes made within statutory timelines (including where extensions are requested)	100%	100%	100%
Rule change extensions	Proportion of rule change processes that are extended	35%	20%	32%
Rule change challenges	0% of rule change challenges are upheld	No challenges	No challenges	No challenges
Market reviews and advice	85% of reviews completed within original Terms of Reference timelines	88%	100%	100%
Efficient resource use	Proportion of FTE and total budget spend on rule making, reviews and advice	FTE: 85% Total budget: 89%	FTE: 84% Total budget: 88%	FTE: 83.4% Total budget: 88.2%

Area	Measure	2013-2014	2014-2015	2015-2016
<b>Stakeholder engagement</b>				
Council and Jurisdictions engagement	Number of formal meetings attended by Commissioners and/or staff with Council and/or Jurisdictional leads	188	155	<b>206</b>
Commissioner forums	Number of consumer and industry forums attended by Commissioners	33	27	<b>45</b>
Staff-led forums	Number of consumer and industry forums attended by AEMC staff	43	63	<b>43</b>
Institutional co-operation	Number of meetings between Commissioners and AEMO and AER leadership	15	8	<b>35</b>
Stakeholder satisfaction (Survey every three years)	At least 7 out of 10 stakeholders satisfied with the AEMC's performance	61% of stakeholders gave a rating of 7 or more out of 10 on their overall opinion of the AEMC	N/A	70% of stakeholders gave a rating of 7 or more out of 10 on their overall opinion of the AEMC
	Develop project-specific stakeholder satisfaction surveys and ensure at least 25% of projects initiate survey upon project completion	Process under development in FY14	Process established. First survey sent June 2015.	29% of completed projects surveyed

Conflicts of interest

Under Section 22 of the Australian Energy Market Commission Establishment Act 2004 (SA), Commissioners must disclose any direct or indirect conflicts of interest in any matter the AEMC is considering. These disclosures are formally minuted and published on the AEMC website. The following declarations of interest were made by Commissioners in 2015-2016:

Mr Pierce is appointed in a full time capacity and does not consider that his other commitments give rise to any conflicts that require management. Mr Pierce is currently a member of the UNSW Australian School of Business Advisory Council. He is also a Board member of the Regulatory Policy Institute Advisory Board and the Department of Economics Industry Advisory Board at Macquarie University, and Chair of the St Patrick's College Strathfield Advisory Board.

Dr Spalding is currently a member of the Energy Saving Scheme Committee and the Energy Networks Regulation Committee of the Independent Pricing and Regulatory Tribunal. Dr Spalding makes the following statement about the arrangements he has put in place to manage (perceived or actual) conflicts of interest:

- 1. Any potential involvement on my part in matters relating to the energy sector, which are not within the jurisdiction of the AEMC, would be disclosed to the Chairman of the AEMC before being involved in such matters to ensure no potential conflict may arise.
- 2. Confidential information obtained in my capacity as a Commissioner will not be disclosed or used for purposes other than the proper purposes.

Mr Henderson has no conflicts which require management.

Audit and risk management

Risk management is a fundamental component of managing our operations. Our processes to identify, assess and manage risk include:

- Audit and Risk Management Committee monitoring of the overall risk management framework, financial reporting processes, processes for compliance, performance of auditors and oversight of the audit program;
- a broad based risk assessment process which is used to develop a rolling three-year internal audit plan and to inform risk management activities;
- the corporate planning processes which prioritise actions based on assessed risks;
- the identification and management of compliance areas on a functional basis with legal support where necessary; and

- the project control framework which is used for rule change, review and corporate projects. This includes the creation of a risk register where relevant and the active management of identified risks.

Audit and risk management committee

The AEMC's Audit and Risk Management Committee is comprised of:

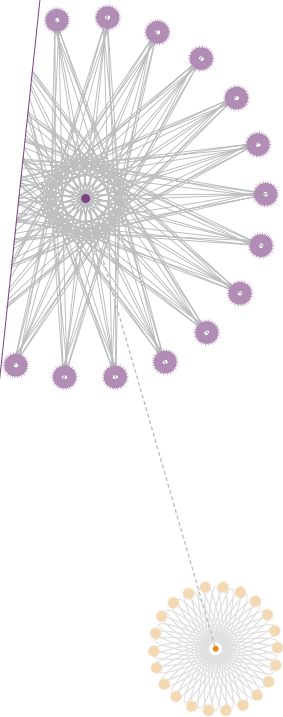
- Mr Jim Mitchell – Independent Chairman
- Dr Brian Spalding – AEMC Commissioner and Committee member
- Ms Jane Byrne – Independent Committee member.

Mr John Pierce, AEMC Chairman, attends meetings but is not a member of the Committee.

Mr Mitchell currently holds appointments as Independent Chair of the Audit and Risk Committee for a range of government agencies including the New South Wales Department of Education. His former roles include Deputy Auditor-General of the Audit Office of New South Wales for seven years, Assistant Director General for the Department of Local Government and probity adviser to the Director General at the Department of Transport of New South Wales.

COMMISSION AUDIT AND RISK MANAGEMENT COMMITTEE MEMBERSHIP & MEETINGS 2015-2016

In addition to face to face meetings the audit committee dealt with a number of matters out of session.			
Members	Committee Term	Eligible	Attended
Jim Mitchell (Committee Chair)	From 1 July 2015	5	5
Glenn Appleyard	4 May 2010 - 13 November 2015	4	3
Brian Spalding	From 19 April 2010	5	5
Jane Byrne	From 1 July 2015	5	5



Ms Byrne is a Financial Services professional with 30 years' experience at senior executive level in trusts, superannuation, wealth management, governance and risk management. She is currently a non-executive director of St Patrick's College Strathfield Advisory Board and Chair of the College's Risk Management Committee. Ms Byrne was Company Secretary of Pillar Administration, Australia's third largest superannuation fund administrator, for ten years.

During the year under review, Mr Mitchell replaced Mr Glenn Appleyard as Committee Chairman following the expiration of Mr Appleyard's term in November 2015. Mr Appleyard is a member of the Independent Hospital Pricing Authority; former Chair of the Tasmanian Economic Regulator; and a former member of the Australian Accounting Standards Board.

### Fraud prevention

Within our risk management framework, procedures are in place to help identify sources of potential fraud or corrupt practices, prevent occurrences, and investigate and take appropriate action on reported breaches. No instances of fraud were identified during the year under review.

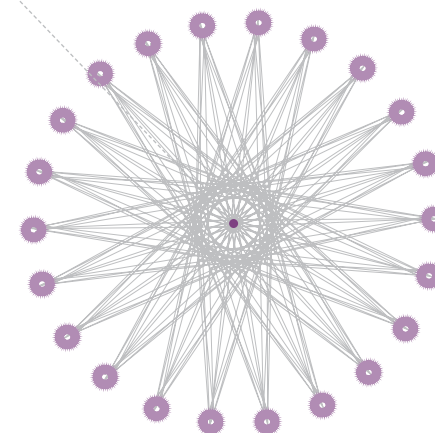
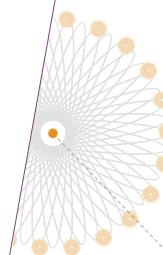
### Business continuity

The objective of the AEMC's Business Continuity and Disaster Recovery Plan is to ensure that business processes are robust and able to withstand minor business interruptions and to ensure the ongoing ability of the AEMC to continue its operations in the event of a major business interruption. The AEMC did not suffer any major business interruptions in the year under review.

### Freedom of Information

The AEMC is subject to the Freedom of Information Act 1991 (SA). There were no freedom of information requests made to the AEMC in 2015-2016. All documents we publish regarding our rule making, reviews, advice and all versions of the National Electricity Rules, National Gas Rules and National Energy Retail Rules are on our website at [www.aemc.gov.au](http://www.aemc.gov.au). They can also be inspected at our offices. A request under the Freedom of Information Act 1991 (South Australia) is not required to inspect them.

The AEMC is working with officials to implement a range of recommendations to fine-tune energy market arrangements to improve the timeliness and transparency of rule changes and reviews.





# Annual Financial Statements

Annual Financial Statements  
For the year ended 30 June 2016

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## INDEPENDENT AUDITOR'S REPORT



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Auditor-General's Department

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### To the Chairperson Australian Energy Market Commission

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* I have audited the accompanying financial report of the Australian Energy Market Commission for the financial year ended 30 June 2016. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2016
- a Statement of Financial Position as at 30 June 2016
- a Statement of Changes in Equity for the year ended 30 June 2016
- a Statement of Cash Flows for the year ended 30 June 2016
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chairperson, Chief Executive and the Finance & Risk Manager.

### The Commissioners' responsibility for the financial report

The Commissioners are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as the Commissioners determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

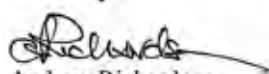
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Commissioners, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My report refers only to the financial statements described above and does not provide assurance over the integrity of publication of the financial report on the Australian Energy Market Commission website nor does it provide an opinion on any other information which may have been hyperlinked to/from these statements.

### **Opinion**

In my opinion, the financial report gives a true and fair view of the financial position of the Australian Energy Market Commission as at 30 June 2016, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.



Andrew Richardson  
**Auditor-General**  
14 September 2016



# Certification of the financial statements

## Australian Energy Market Commission Financial Statements for the year ended 30 June 2016

### Certification of the financial statements

We certify that the:

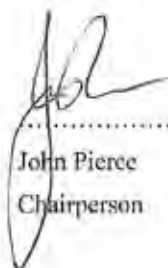
- financial statements of the Australian Energy Market Commission ("the Commission"):
  - are in accordance with the accounts and records of the authority; and
  - comply with relevant Treasurer's instructions; and
  - comply with the relevant accounting standards; and
  - present a true and fair view of the financial position of the Commission at the end of the financial year and the result of its operations and cash flows for the financial year.
- Internal controls employed by the Commission over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.



Anne Pearson  
Chief Executive



Laurie Treloar FCPA  
Finance & Risk Manager



John Pierce  
Chairperson

Date: 5 September 2016



# Statement of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>Expenses</b>			
Employee benefits expenses	5	11,964	10,739
Supplies and services	6	10,851	8,946
Depreciation and amortisation expense	7	239	507
Grants	8	–	27
Net loss on disposal of non-current assets	9	7	9
<b>Total expenses</b>		23,061	20,228
<b>Income</b>			
Interest revenues	10	291	317
Other revenues	11	1,045	527
<b>Total income</b>		1,336	844
<b>Net cost of providing services</b>		(21,725)	(19,384)
<b>Revenues from Government</b>			
Contributions from participating jurisdictions	12	20,312	19,959
<b>Net result</b>		(1,413)	575
<b>Total comprehensive result</b>		(1,413)	575

The net result and total comprehensive result are attributable to the participating jurisdictions as owners.

*The above statement should be read in conjunction with the accompanying notes.*

# Statement of Financial Position

As at 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>Current assets</b>			
Cash and cash equivalents	13	12,164	14,505
Receivables	14	546	896
<b>Total current assets</b>		12,710	15,401
<b>Non-current assets</b>			
Property, plant and equipment	15	522	341
Intangible assets	16	344	246
<b>Total non-current assets</b>		866	587
<b>Total assets</b>		13,576	15,988
<b>Current liabilities</b>			
Payables	17	980	861
Employee benefits	18	725	666
Other liabilities	19	795	2,186
<b>Total current liabilities</b>		2,500	3,713
<b>Non-current liabilities</b>			
Payables	17	60	60
Employee benefits	18	580	373
Provisions	20	331	324
<b>Total non-current liabilities</b>		971	757
<b>Total liabilities</b>		3,471	4,470
<b>Net Assets</b>		10,105	11,518
<b>Equity</b>			
Retained earnings		8,088	9,501
Contributed capital		2,017	2,017
<b>Total Equity</b>	21	10,105	11,518
The total equity is attributable to the participating jurisdictions as owners.			
Unrecognised contractual commitments	22		
Contingent assets and liabilities	23		

The above statement should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

For the year ended 30 June 2016

	Note	Contributed capital \$'000	Retained earnings \$'000	Total Equity \$'000
Balance at 30 June 2014		2,017	8,926	10,943
Net result for 2014-15		–	575	575
<b>Total comprehensive result for 2014-15</b>		–	575	575
Balance at 30 June 2015		2,017	9,501	11,518
Net result for 2015-16		–	(1,413)	(1,413)
<b>Total comprehensive result for 2015-16</b>		–	(1,413)	(1,413)
<b>Balance at 30 June 2016</b>	21	2,017	8,088	10,105

All changes in equity are attributable to the participating jurisdictions as owners.

*The above statement should be read in conjunction with the accompanying notes.*

# Statement of Cash Flows

For the year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
<b>Cash outflows</b>			
Employee benefits payments		(11,123)	(10,172)
Payments for supplies and services		(12,168)	(10,080)
Payments of grants		–	(27)
Payments for paid parental leave scheme		(29)	(18)
<b>Cash used in operations</b>		<b>(23,320)</b>	<b>(20,297)</b>
<b>Cash inflows</b>			
Receipts from participating jurisdictions		19,640	20,544
Other receipts		1,097	384
Interest received		255	324
GST recovered from the ATO		435	256
Receipts for paid parental leave scheme		28	19
<b>Cash generated from operations</b>		<b>21,455</b>	<b>21,527</b>
<b>Net cash (used in)/provided by operating activities</b>		<b>(1,865)</b>	<b>1,230</b>
<b>Cash flows from investing activities</b>			
<b>Cash outflows</b>			
Purchase of property, plant and equipment		(235)	(221)
Purchase of intangibles		(241)	(41)
<b>Cash used in investing activities</b>		<b>(476)</b>	<b>(262)</b>
<b>Net cash used in investing activities</b>		<b>(476)</b>	<b>(262)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,341)</b>	<b>968</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>14,505</b>	<b>13,537</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>12,164</b>	<b>14,505</b>

The above statement should be read in conjunction with the accompanying notes.



# Notes to & forming part of the Financial Statements

For the year ended 30 June 2016

## 1 Objectives of the Australian Energy Market Commission

The Australian Energy Market Commission ("the Commission") was established on 22 July 2004 pursuant to the *Australian Energy Market Commission Establishment Act 2004 (South Australia)*. The Commission operates in Australia from a single office in Sydney, NSW.

The Commission's key functions under the AEMC Establishment Act, the National Electricity Law, National Gas Law, and the National Energy Retail Law, are to:

- a) consider rule change requests and make rule determinations;
- b) conduct market reviews on request of the Ministerial Council on Energy (MCE), or on the AEMC's own initiative; and
- c) provide advice on request from the MCE.

## 2 Summary of significant accounting policies

### a) Statement of compliance

The financial statements have been prepared in compliance with section 23 of the *Public Finance and Audit Act 1987*.

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards (Reduced Disclosure Requirements) and comply with South Australian Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

The Commission has applied Australian Accounting Standards that are applicable to not-for-profit entities, as the Commission is a not-for-profit entity.

The SA Department of Treasury identified the Commission as a Tier 2 public authority and the Commission has chosen the option to apply Tier 2 Australian Accounting Standards reporting requirements. This allows for a reduction in the number and the level of detail of some notes.

### b) Basis of preparation

The preparation of the financial statements requires:

- the use of certain accounting estimates and requires management by the Commission to exercise judgement in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements, are outlined in the applicable notes.
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.
- compliance with Accounting Policy Statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures, which have been included in this financial report:
  - i) expenses incurred as a result of engaging consultants;
  - ii) employees whose normal remuneration is equal to or greater than the base executive remuneration level (within \$10,000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by the entity to those employees; and
  - iii) commissioner and committee member and remuneration information, where a member is entitled to receive income other than a direct out-of-pocket reimbursement.

The Commission's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention.

The Statement of Cash Flows has been prepared on a cash basis.

The financial statements have been prepared based on a 12 month period and presented in Australian currency.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2016 and the comparative information presented.

#### c) Reporting entity

The Commission is a body corporate established under South Australian law.

The Commission does not control any other entity and has no interests in unconsolidated structured entities. The Commission has not entered into any contractual arrangements which involve the sharing of control or significant influence over another entity.

#### d) Comparative information

The presentation and classification of items in the financial statements are consistent with prior periods except where specific accounting standards and/or accounting policy statements have required a change.

Where presentation or classification of items in the financial statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statements unless impracticable.

#### e) Rounding

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

#### f) Taxation

The Commission is not subject to income tax. The Commission is liable for payroll tax, fringe benefits tax and goods and services tax (GST).

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from the Australian Taxation Office, is classified as part of operating cash flows.

#### g) Events after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June.

Note disclosure is made about events between 30 June 2016 and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June 2016 and which may have a material impact on the results of subsequent years. Refer to Note 26.

#### h) Income

Income is recognised to the extent it is probable that the flow of economic benefits to the Commission will occur and can be reliably measured.

Income has been aggregated according to its nature and has not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

The following are specific recognition criteria:

##### **Contributions received from participating jurisdictions**

The Commission's funding is provided through contributions by the participating jurisdictions within the meaning of the National Electricity Law and the National Gas Law and the National Energy Retail Law. South Australia's contribution to the Commission is an expense of the SA Government and not an inter-agency transaction.

Contributions are recognised as an asset and income when the Commission obtains control of the contributions or obtains the right to receive the contributions and the income recognition criteria are met (i.e. the amount can be reliably measured and the flow of resources is probable).

Generally, the Commission has obtained control or the right to receive for:

- Contributions with unconditional stipulations – this will be when the agreement becomes enforceable i.e. the earlier of when the receiving entity has formally been advised that the contribution has been approved; agreement/contract is executed; and/or the contribution is received.
- Contributions with conditional stipulations – this will be when the enforceable stipulations specified in the agreement occur or are satisfied; that is income would be recognised for contributions received or receivable under the agreement.

All contributions received by the Commission have been contributions with unconditional stipulations attached and have been recognised as an asset and income in the period in which they are earned.

#### i) Expenses

Expenses are recognised to the extent that it is probable that the flow of economic benefits from the Commission will occur and can be reliably measured.

Expenses have been aggregated according to their nature and have not been offset unless required or permitted by another accounting standard, or where offsetting reflects the substance of the transaction or other event.

The following are specific recognition criteria:

##### *Employee benefits expenses*

Employee benefits expenses include all costs related to employment including wages and salaries, non-monetary benefits and leave entitlements. These are recognised when incurred.

#### **Superannuation**

The amount charged to the Statement of Comprehensive Income represents the contributions made by the Commission to the superannuation plan in respect of current services of current Commission staff.

#### **Depreciation and amortisation**

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets such as software, while depreciation is applied to tangible assets such as property, plant and equipment.

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, on an annual basis.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimate. These have not changed.

Depreciation/amortisation is calculated on a straight-line basis over the estimated useful life of the following classes of assets:

Class of Assets	Useful Life (years)
Plant and Equipment	3-20
Intangibles	4-5
IT Infrastructure	3-4

Useful life differs from 2015 accounts due to a number of acquisitions and disposal of assets.

#### **Net gain / loss on disposal of non-current assets**

Any gain/ (loss) on disposal of assets are recognised at the date control of the asset is passed to the buyer and are determined after deducting the written down value from the proceeds of the asset sale at the time.

#### j) Current and non-current classification

Assets and liabilities are characterised as either current or non-current in nature. Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting date have been classified as current assets or current liabilities.

## **k) Assets**

Assets have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

### **Cash and cash equivalents**

Cash and cash equivalents in the Statement of Financial Position and for the purposes of the Statement of Cash Flows, include cash at bank and cash on hand and in other short-term, highly liquid investments with maturities of six months or less that are readily converted to cash and which are subject to insignificant risk in changes in value.

Cash is measured at nominal value.

### **Receivables**

Receivables include funding receivable, net GST input tax credits recoverable, interest receivable, prepayments and other accruals.

Receivables are generally settled within 30 days after issue of an invoice. Collectability of receivables is reviewed on an on-going basis. An allowance for doubtful debts is raised when there is objective evidence that the Commission will not be able to collect the debt. Bad debts are written off when identified.

### **Non-current assets**

#### **Acquisition and recognition**

Non-current assets are initially recorded at cost plus any incidental cost involved with the acquisition. Non-current assets are subsequently measured at fair value less accumulated depreciation. All non-current tangible assets with a value equal to or in excess of \$2,000 are capitalised.

#### **Revaluation of non-current assets**

All non-current tangible assets are valued at written down current cost (a proxy for fair value); and revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years. No revaluation was performed for the year ended 30 June 2016 as the Commission did not have non-current assets which met the revaluation criteria.

#### **Impairment**

All non-current tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. The recoverable amount is determined as the higher of the asset's fair value less costs of disposal and depreciated replacement cost. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

### **Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Commission only has intangible assets with finite lives. The amortisation period and the amortisation method for intangible assets are reviewed on an annual basis.

The acquisition of, or internal development of software is capitalised when the expenditure meets the definition criteria (identifiably, control and the existence of future economic benefits) and recognition criteria (probability of future economic benefits and cost can be reliably measured) and when the amount of the expenditure is greater than or equal to \$2,000.

## **l) Liabilities**

Liabilities have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

### **Payables**

Payables include creditors, accrued expenses, net GST payable, employment on-costs and Paid Parental Leave Scheme payable.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Commission.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.



The Paid Parental Leave Scheme payable represents amounts which the Commission has received from the Commonwealth Government to forward onto eligible employees via the Commission's standard payroll processes. That is, the Commission is acting as a conduit through which the payment to eligible employees is made on behalf of the Family Assistance Office.

All payables are measured at their nominal amount, are unsecured and are normally settled within 30 days from the date of the invoice or date the invoice is first received.

Employee benefit on-costs include payroll tax, workers compensation levies and superannuation contributions in respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

The Commission makes contributions to several externally managed superannuation schemes on behalf of employees. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid.

### **Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. The Commission has entered into operating leases.

#### ***Operating leases***

The Commission has an operating lease for its office accommodation. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The straight-line basis is representative of the pattern of benefits derived from the leased asset.

#### ***Lease incentives***

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset. Incentives received to enter into operating leases are recognised as a liability. The aggregate benefits of lease incentives received by the Commission in respect of operating leases have been recorded as a reduction of rental expense over the lease term, on a straight-line basis.

### **Employee benefits**

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

#### ***Salaries, wages, annual leave and sick leave***

The liability for salary and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

#### ***Long service leave***

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. The estimated liability for long service leave is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data across South Australian Government entities.

Expected future payments are discounted using market yields at the end of the reporting period on government bonds with durations that match, as closely as possible, the estimated future cash outflows.

The unconditional portion of the long service leave provision is classified as current as the Commission does not have an unconditional right to defer settlement of the liability for at least 12 months after reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payment arising after 10 years of service. However, the liability is classified as non-current if it is not expected to be settled wholly before 12 months after the reporting date.

The Commission in previous years used independent actuarial estimates for its long service leave liability however, for this and future financial reporting periods the Commission has adopted the South Australian Government system calculations for liability estimates.

### Provisions

Provisions are recognised when the Commission has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted for the time value of money and the risks specific to the liability. The Commission has no requirement to recognise a workers compensation provision as workplace injuries are insured through Allianz insurance.

### Provision for make good

The Commission has recognised a provision for make good as a result of its obligation to return refurbished leasehold improvements to their original condition at the end of its operating lease for office accommodation.

### m) Unrecognised contractual commitments and contingent assets and liabilities

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources are disclosed at their nominal value.

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the Australian Taxation Office. If GST is not payable to, or recoverable from, the Australian Taxation Office, the commitments and contingencies are disclosed on a gross basis.

## 3 New and revised accounting standards and policies

The Commission did not voluntarily change any of its accounting policies during 2015-16.

## 4 Economic dependency

The continued existence of the Commission in its present form is dependent on Government policy in each of the jurisdictions who fund the Commission, and the Commonwealth Government.

To assist with revenue certainty, in January 2016 the Council of Australian Governments' Energy Council advised the approval of funding of \$22.2m for 2016-17, \$22.7m for 2017-18, \$23.3m for 2018-19 and \$23.9m for 2019-20.

## 5 Employee benefit expenses

	2016 \$'000	2015 \$'000
Salaries and wages	9,397	8,601
Long service leave	200	115
Annual leave	823	710
Employment on-costs – superannuation	893	784
Payroll and Fringe Benefits Tax	565	512
Relocation expenses	86	17
<b>Total employee benefit expenses</b>	<b>11,964</b>	<b>10,739</b>

Employees are appointed under common law contracts and are not employees under the *South Australian Public Sector Act 2009*. Commissioners are appointed by the Governor of South Australia on the recommendation of the Minister following nomination by the Ministerial Council on Energy or the Commonwealth as appropriate in accordance with the *Australian Energy Market Establishment Act 2004*.

Remuneration disclosures for employees below are in accordance with the South Australian Government Accounting Policy Framework APF II paragraph APS 4.8 for the year ended 30 June 2016.

## 5 Employee benefit expenses (continued)

Remuneration of employees	2016 No.	2015 No.
The number of employees whose remuneration received or receivable falls within the following bands:		
\$141,500 – \$145,000*	3	3
\$145,001 – \$155,000	3	–
\$155,001 – \$165,000	2	4
\$165,001 – \$175,000	2	1
\$175,001 – \$185,000	3	4
\$185,001 – \$195,000	1	4
\$195,001 – \$205,000	4	–
\$205,001 – \$215,000	–	3
\$215,001 – \$225,000	5	–
\$225,001 – \$235,000	1	–
\$235,001 – \$245,000	–	1
\$245,001 – \$255,000	–	2
\$255,001 – \$265,000	1	–
\$265,001 – \$275,000	1	1
\$315,001 – \$325,000	1	–
\$345,001 – \$350,000	–	1
<b>Total number of employees</b>	<b>27</b>	<b>24</b>

\* This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2014-15.

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year, as established by the South Australia Department of Treasury and Finance.

Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received by these employees for the year was \$5,254,000 (2015: \$4,708,000). Commissioners' remuneration is disclosed in note 24.

## 6 Supplies and services

	2016 \$'000	2015 \$'000
Property expenses	1,633	1,629
Information technology expenses	631	487
Accounting, legal and audit expenses	133	123
Project contractor and consultancy expenses #	4,874	4,323
Project administration expenses *	642	296
Other contractor and consultancy expenses	816	644
General administration expenses	357	346
Travel and accommodation expenses	576	426
Recruitment expenses	520	259
Staff training expenses	570	310
Other staff related expenses	99	103
<b>Total supplies and services</b>	<b>10,851</b>	<b>8,946</b>

# Includes professional services such as economic advice, modelling, and legal advice directly related to project work on rule changes, market reviews and expert panels.

\* Includes stakeholder communication costs, venue hire and statutory advertising directly related to project work on rule changes, market reviews and expert panels.

The number and dollar amount paid/payable in total to each consultant that fell within the following bands:	No.	2016 \$'000	No.	2015 \$'000
Below \$10,000	4	20	–	–
Above \$10,000	33	4,730	27	3,386
<b>Total paid/payable to the consultants engaged</b>	<b>37</b>	<b>4,750</b>	<b>27</b>	<b>3,386</b>

## 7 Depreciation and amortisation expense

	2016 \$'000	2015 \$'000
Plant and equipment	20	15
IT Infrastructure	101	154
Intangible assets	118	338
<b>Total depreciation and amortisation</b>	<b>239</b>	<b>507</b>

## 8 Grants

	2016 \$'000	2015 \$'000
Consumer Advocacy Panel grants	–	27
<b>Total grants</b>	<b>–</b>	<b>27</b>

The Commission used to administer collection of grant funding for the Consumer Advocacy Panel for gas advocacy from the Western Australia and Northern Territory jurisdictions. The 2015 grant amount comprised gas advocacy funding until 29 January 2015 when the Consumer Advocacy Panel ceased operating.



## 9 Net loss on disposal/write-off of non-current and other assets

	2016 \$'000	2015 \$'000
<b>Plant and equipment</b>		
Proceeds from disposal	–	–
Less net book value of assets disposed	7	–
Net loss from write-off of plant and equipment	(7)	–
<b>IT infrastructure</b>		
Proceeds from disposal	–	–
Less net book value of assets disposed	–	9
Net loss from write-off of IT infrastructure assets	–	(9)
<b>Total assets</b>		
Total proceeds from disposal	–	–
Less total value of assets disposed	7	9
<b>Total net loss from disposal of assets</b>	<b>(7)</b>	<b>(9)</b>

## 10 Interest revenues

	2016 \$'000	2015 \$'000
Interest earned on bank accounts	291	317
<b>Total interest revenues</b>	<b>291</b>	<b>317</b>

## 11 Other revenues

	2016 \$'000	2015 \$'000
Recovery from the Consumer Advocacy Panel*	–	243
Recovery of project costs, staff costs and rent	1,045	284
<b>Total other revenues</b>	<b>1,045</b>	<b>527</b>

\* The Consumer Advocacy Panel ceased operations on 29 January 2015.

## 12 Contributions from participating jurisdictions

	2016 \$'000	2015 \$'000
Operational funding	20,312	19,959
<b>Total contributions from participating jurisdictions</b>	<b>20,312</b>	<b>19,959</b>

### 13 Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank and on hand	6,068	14,505
Short-term deposits	6,096	–
<b>Total cash and cash equivalents</b>	<b>12,164</b>	<b>14,505</b>

#### Short – term deposits

Short-term deposits are made for varying periods of three months and six months. The deposits are lodged with the ANZ bank and earn interest at the respective short-term deposit rates

### 14 Receivables

	2016 \$'000	2015 \$'000
<b>Current</b>		
Interest receivable	56	19
Prepayments	255	310
GST input tax recoverable	169	302
Other receivables	66	265
<b>Total receivables</b>	<b>546</b>	<b>896</b>

#### Allowance for doubtful debts

As at 30 June 2016, there was no objective evidence that a receivable was impaired. Therefore the Commission has not recognised any allowance for doubtful debts.

### 15 Property, plant and equipment

	2016 \$'000	2015 \$'000
Plant and Equipment, at cost (deemed fair value)	182	117
Accumulated depreciation at the end of the period	(62)	(72)
<b>Total plant and equipment</b>	<b>120</b>	<b>45</b>
IT Infrastructure, at cost (deemed fair value)	845	845
Accumulated depreciation at the end of the period	(650)	(549)
<b>Total IT infrastructure</b>	<b>195</b>	<b>296</b>
Work in progress	207	–
<b>Total IT infrastructure and work in progress</b>	<b>402</b>	<b>296</b>
<b>Total Property, plant and equipment</b>	<b>522</b>	<b>341</b>

All property, plant and equipment assets are classified as a level 2 asset for the purposes of the fair value hierarchy.

#### Impairment

There were no indications of impairment of property, plant and equipment at 30 June 2016.

#### Reconciliation of non-current assets

The following table shows the movement of non-current assets during 2016.

## 15 Property, plant and equipment (continued)

	2016 \$'000	2015 \$'000
<b>Plant and equipment</b>		
Carrying amount at beginning of the period	45	60
Acquisitions	103	–
Disposals/write-offs	(37)	–
Depreciation adjustment for write-offs	30	–
Depreciation and amortisation	(21)	(15)
<b>Carrying amount at the end of the period</b>	<b>120</b>	<b>45</b>
<b>IT infrastructure</b>		
Carrying amount at beginning of the period	296	238
Acquisitions	–	221
Disposals/write-offs	–	(9)
Depreciation and amortisation	(101)	(154)
<b>Carrying amount at the end of the period</b>	<b>195</b>	<b>296</b>
Work in Progress	207	–
<b>Total IT infrastructure</b>	<b>402</b>	<b>296</b>
<b>Total property, plant and equipment</b>	<b>522</b>	<b>341</b>

## 16 Intangible assets

	2016 \$'000	2015 \$'000
Computer software, at cost (deemed fair value)	2,790	3,232
Accumulated amortisation	(2,466)	(3,011)
<b>Total computer software</b>	<b>324</b>	<b>221</b>
Work in progress	20	25
<b>Total intangible assets</b>	<b>344</b>	<b>246</b>
<b>Reconciliation of computer software</b>		
Carrying amount at beginning of the period	221	534
Acquisitions	221	25
Disposals/write-offs	(663)	–
Amortisation adjustment for write-offs	663	–
Amortisation	(118)	(338)
<b>Carrying amount at the end of the period</b>	<b>324</b>	<b>221</b>
Work in Progress	20	25
<b>Total intangible assets</b>	<b>344</b>	<b>246</b>

All intangible assets are classified as a level 2 asset for the purposes of the fair value hierarchy.

### Impairment

There were no indications of impairment on intangible assets at 30 June 2016.

## 17 Payables

	2016 \$'000	2015 \$'000
<b>Current</b>		
Creditors	172	489
Accrued expenses	702	201
Employment on-costs	106	170
Paid Parental Leave Scheme payable	–	1
<b>Total current payables</b>	<b>980</b>	<b>861</b>
<b>Non-current</b>		
Employment on-costs	60	60
<b>Total non-current payables</b>	<b>60</b>	<b>60</b>
<b>Total payables</b>	<b>1,040</b>	<b>921</b>

## 18 Employee benefits

	2016 \$'000	2015 \$'000
<b>Current</b>		
Accrued salaries and wages	161	74
Annual leave	557	487
Long service leave	7	105
<b>Total current employee benefits</b>	<b>725</b>	<b>666</b>
<b>Non-current</b>		
Long service leave	580	373
<b>Total non-current employee benefits</b>	<b>580</b>	<b>373</b>
<b>Total employee benefits</b>	<b>1,305</b>	<b>1,039</b>

AASB 119 contains the calculation methodology for long service leave liability. In 2015 and previous years the liability was calculated using independent actuarial information, however for 2016 and future financial reporting periods the actuarial assessment is performed by the SA Department of Treasury who provide the basis for the measurement of long service leave.

## 19 Other liabilities

	2016 \$'000	2015 \$'000
<b>Current</b>		
Unearned revenue	595	2,088
Deferred lease incentive*	200	98
<b>Total other liabilities</b>	<b>795</b>	<b>2,186</b>

\* Deferred lease incentive is the net difference between total rent paid year to date on the office accommodation lease, and the year to date costs calculated on a straight line basis.



## 20 Provisions

	2016 \$'000	2015 \$'000
<b>Non-current</b>		
Provision for make good	331	324
<b>Total non-current provisions</b>	331	324
<b><i>Reconciliation of provision for make good</i></b>		
Carrying amount at the beginning of the period	324	298
Provision to make good leasehold premises	7	26
<b>Carrying amount at end of the period</b>	331	324

## 21 Equity

	2016 \$'000	2015 \$'000
<b>Contributed Capital</b>		
New South Wales	750	750
Victoria	556	556
Queensland	432	432
South Australia	173	173
Tasmania	54	54
Australian Capital Territory	36	36
Western Australia	14	14
Northern Territory	2	2
<b>Total contributed capital</b>	2,017	2,017
<b>Retained earnings</b>	8,088	9,501
<b>Total Equity</b>	10,105	11,518

The Funding Agreement with the Jurisdictions provides for the maintenance of a Capital reserve to meet any adverse funding situation or unexpected cash flows. Each State and Territory provided their portion of the funds for the Capital reserve which is intended to be retained by the Commission for its lifetime.

## 22 Unrecognised contractual commitments

	2016 \$'000	2015 \$'000
<b>Capital commitments</b>		
Capital expenditure contracted for at the reporting date but are not recognised as liabilities in the financial report, are payable as follows:		
Within one year	26	–
<b>Total capital commitments</b>	26	–

	2016 \$'000	2015 \$'000
<b>Expenditure commitments – other</b>		
Within one year	1,691	2,132
Later than one year but not longer than five years	165	129
<b>Total commitments – other</b>	1,856	2,261

The Commission's other commitments are for agreements for provision of services.

	2016 \$'000	2015 \$'000
<b>Operating lease commitments</b>		
Commitments for minimum lease payments in relation to non-cancellable operating leases, contracted for at the reporting date but not recognised as liabilities are payable as follows:		
Within one year	1,090	1,044
More than one year but not later than five years	4,746	4,656
Later than five years	–	1,181
<b>Total operating lease commitments</b>	5,836	6,881
Representing		
Non-cancellable operating leases	5,836	6,881
<b>Total operating lease commitments</b>	5,836	6,881

The Commission's operating leases are for office accommodation. Office accommodation is leased from Perron Investments Pty Ltd and Perpetual Trustee Company Limited. A lease commenced 1 June 2013 and is non-cancellable with a term of eight years (expiring on 31 May 2021) with a right of renewal for a further five years. Rent is payable monthly in advance. The lease rental increments are fixed at 4.0% per annum for the lease term.

## 23 Contingent assets and liabilities

The Commission is not aware of any contingent assets and liabilities.

## 24 Remuneration of Commissioners and Committee Members

Members who held office during the reporting period were:

### Commissioners

John Pierce (appointed 2 June 2010 and re-appointed 2 June 2015)

Neville Henderson (appointed 19 October 2009 and re-appointed 19 October 2014)

Brian Spalding (appointed 19 April 2010, re-appointed 19 April 2013, and 19 April 2016)

### Audit and Risk Management Committee

John Pierce (appointed 2 June 2010, re-appointed 2 June 2015, and ceased 1 July 2015)

Brian Spalding (appointed 19 April 2010 and re-appointed 19 April 2013, and 19 April 2016)

Glenn Appleyard (appointed 9 November 2007, re-appointed 27 October 2011, and 5 November 2013, and ceased 13 November 2015)

Jim Mitchell (appointed 1 July 2015)

Jane Byrne (appointed 1 July 2015)

### Reliability Panel

Neville Henderson (appointed 3 November 2009, and re-appointed 19 October 2014)

	2016 No.	2015 No.
The number of Commissioners and Committee members whose remuneration received or receivable falls within the following bands:		
\$0 – \$9,999	1	1
\$10,000 – \$19,999	2	–
\$170,000 – \$179,999	–	1
\$180,000 – \$189,999	1	–
\$200,000 – \$209,999	1	1
\$540,000 – \$549,999	–	1
\$560,000 – \$569,999	1	–
<b>Total number of Commissioners and Committee members</b>	<b>6</b>	<b>4</b>

Remuneration of Commissioners reflects all costs of performing Commission/committee member duties including sitting fees, salaries and wages, superannuation contributions, salary sacrifice benefits and fringe benefits and any net fringe benefits tax paid or payable in respect of those benefits. The total remuneration received or receivable by Commissioners and Committee members for the year was \$983,000 (2015: \$932,000).

Unless otherwise disclosed, transactions between members are on conditions no more favourable than those that it is reasonable to expect the entity would have adopted if dealing with the related party at arm's length in the same circumstances.

## 25 Financial risk management/ Financial instruments

### Financial risk management

Risk management is managed by the Commission's corporate services and legal sections and risk management policies are in accordance with ISO 31000 – International Standard for Risk Management – Principles and guidelines.

### Categorisation of financial instruments

Details of significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability are disclosed in Note 2 Summary of significant accounting policies.

## 25 Financial risk management/ Financial instruments (continued)

The Commission does not recognise any financial assets or financial liabilities at fair value, but does disclose fair value in the notes. All of the resulting fair value estimates are included in level 2 as all significant inputs required are observable.

The carrying value less impairment provisions of receivables and payables is a reasonable approximation of their fair values due to the short-term nature of these (refer Notes 2, 14 and 17).

### Categorisation and maturity analysis of financial assets and liabilities

Category of financial asset and financial liability	Notes	2016	2016 Contractual maturities			
		Carrying amount/ Fair value (\$'000)	Current (\$'000)	Within 1 year (\$'000)	1-5 years (\$'000)	More than 5 years (\$'000)
<b>Financial assets</b>						
Cash and cash equivalent	13	12,164	12,164	–	–	–
Receivables <sup>(1), (2)</sup>	14	122	122	–	–	–
<b>Total financial assets</b>		12,286	12,286	–	–	–
<b>Financial liabilities</b>						
Financial liabilities at cost						
Payables <sup>(1)</sup>	17	698	698	–	–	–
<b>Total financial liabilities</b>		698	698	–	–	–

Category of financial asset and financial liability	Notes	2015	2015 Contractual maturities			
		Carrying amount/ Fair value (\$'000)	Current (\$'000)	Within 1 year (\$'000)	1-5 years (\$'000)	More than 5 years (\$'000)
<b>Financial assets</b>						
Cash and cash equivalent	13	14,505	14,505	–	–	–
Receivables <sup>(1), (2)</sup>	14	284	284	–	–	–
<b>Total financial assets</b>		14,789	14,789	–	–	–
<b>Financial liabilities</b>						
Financial liabilities at cost						
Payables <sup>(1)</sup>	17	611	611	–	–	–
<b>Total financial liabilities</b>		611	611	–	–	–

(1) Receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables. In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levy receivables/payables, tax equivalents, Commonwealth tax etc. they would be excluded from the disclosure. The standard defines 'contract' as enforceable by law. All amounts recorded are carried at cost.

(2) Receivables amount disclosed here excludes prepayments. Prepayments are presented in Note 14 as trade and other receivables in accordance with paragraph 78(b) of AASB101. However, prepayments are not financial assets as defined in AASB 132 as the future economic benefit of these assets is the receipt of goods and services rather than the right to receive cash or another financial asset.

## 26 Events after reporting period

There are no events occurring after 30 June that have a material financial implication on the financial statements.



# Statutory reports

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# Statutory reports

## MCE Statements of Policy Principles

There are currently no Statements of Policy Principles made by the Ministerial Council on Energy.<sup>1</sup>

## External consultants

The AEMC supplements its own resources with consultants. In 2015-2016 the total amount expended was \$4.75m

## External consultants – spending bands

Number and dollar amount of consultancies that fell within the following bands:	No.	2016 \$000
Below \$10,000	4	20
Above \$10,000	33	4,730
<b>Total</b>	<b>37</b>	<b>4,750</b>

## External consultants – project descriptions

Company	Project description
AECOM Australia Pty Ltd	Technical advice on transmission connection arrangements under the National Electricity Rules
Allens	Legal services in connection with metering related rule changes including Expanding competition in metering and related services
Castalia	Advice on the appropriateness of the current gas pipeline access regime in eastern and southern Australia
CEG Asia Pacific Pty Ltd	Data review for the 2015 Residential Electricity Price Trends Report
CSIRO	Provision of research into storage technologies
Deloitte Touche Tohmatsu	Assisting the Reliability Panel to undertake the Annual Market Performance Review 2015
DGA Consulting	International comparison of major electricity supply disruptions and regulatory arrangements for power system restoration
Energeia	Review of international approaches to the integration of distributed energy resources
Ernst & Young	Provision of advice in relation to the impact of late rebidding on the contract market
Farrier Swier Consulting	Expert advice for the Review of the Victorian Declared Wholesale Gas Market (DWGM)
Flaxworks Pty Ltd	Structured publishing review and implementation
Frontier Economics Pty Ltd	Modelling and advice on Residential Electricity Price Trends

<sup>1</sup> The Ministerial Council on Energy (MCE) is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory ministers responsible for energy. On 1 July 2011 the MCE was amalgamated with the Ministerial Council on Mineral and Petroleum Resources. The amalgamated body is now called the COAG Energy Council.

FTI Consulting	Assessing the impact of a not-for-profit entity as a system operator; Development of a conceptual design for a virtual gas hub(s) for the east coast of Australia
Herbert Smith Freehills	Legal advice on rules drafting for Retailer-Distributor Credit Support Requirements
Houston Kemp Economists	Expert advice for the East Coast Gas review and the Review of the Victorian Declared Wholesale Gas Market (DWGM)
Incenta Economic Consulting	Advice on the appropriateness of the current gas pipeline access regime in eastern and southern Australia
Jan McClelland and Associates Pty Ltd	An organisational strategy for the effective implementation of, and response to, the recommendations in the Final Report of the Review of Governance Arrangements for Australian Energy Markets
Johnson Winter & Slattery Lawyers	Legal services in connection with the East Coast Wholesale Gas Market and Pipeline Frameworks Review and related projects
K Lowe Consulting	Ongoing expert advice for the East Coast Gas review and the Review of the Victorian Declared Wholesale Gas Market (DWGM)
King & Wood Mallesons	Legal services in connection with Technical Standards review and Transmission Planning and Connections Arrangements
KPMG Middle Market Advisory	Advice on mechanisms for promoting the efficient use of the gas transmission network in eastern and southern Australia
List G Pty Ltd – Tom Clarke	Statutory interpretation advice in connection with rule change projects
Marsden Jacob Associates	Modelling the value of Local Generation Network Credits
Mercer	Internal governance and human resources
Minter Ellison	Legal services in connection with the NECF assessment tool
Natalie Hoy	Drafting and editing services for the 2016 Retail Competition Review
NERA Economic Consulting	Advice on reserve prices for short-term gas transmission pipeline capacity auctions
Newgate Research	Quantitative consumer research for the 2016 Retail Competition review
Oakley Greenwood Pty Ltd	Provision of an estimate of the compliance costs associated with policy alternatives for the recording and reporting of late rebids
Oxera Consulting LLP	Behavioural insights for Australian retail energy markets
Dr Peter Noel Saul	Facilitation of strategy development workshop
Popple Power Consulting	Technical advice on transmission connection arrangements under the National Electricity Rules.
PricewaterhouseCoopers (NSW)	Cost-benefit analysis of gas market reforms; and internal audit services
Promontory Australasia (Sydney) Pty Ltd	Provision of advice and peer review related to the design and modelling of various options to manage risk of retailer default
Regulatory Economics	Advice on the regulation of new products and services in Australia's electricity markets
Terry Grimwade	Expert advice for the Review of the Victorian Declared Wholesale Gas Market (DWGM)
The Brattle Group	Advice on US regulation used to support pipeline capacity trading

## AEMO's Use of Powers of Direction

A report of the AEMC under section 27 of the Australian Energy Market Commission Establishment Act 2004 (SA) must include a report on AEMO's use of powers of direction.

AEMO can direct registered participants to undertake actions that are in AEMO's view necessary to help deliver power system security. A registered participant who is subject to a direction from AEMO may be entitled to compensation for complying with the direction. AEMO can also issue instructions to any registered participants. Participants complying with an instruction are not able to obtain compensation.

Between 1 July 2015 and 30 June 2016 one AEMO intervention event occurred.

On 13 October 2015 AEMO issued directions to three participants in order to restore power system security under clause 4.8.9 of the National Electricity Rules (NER). The power system was insecure due to the threat of loss of multiple circuits between central and north Queensland which had been reclassified as a credible contingency.

- From 0731 hrs to 0930 hrs, AEMO directed a participant in Queensland to commit a generating unit. The Directed Participant received compensation for the provision of energy pursuant to the direction, in accordance with NER clause 3.15.7(c). The Directed Participant submitted a claim to AEMO for additional compensation, which has been settled in accordance with NER clause 3.15.7B.
- From 0803 hrs to 0930 hrs, AEMO directed a second participant in Queensland to commit three generating units. Two generating units were unable to follow the direction and therefore AEMO cancelled the direction for those units at 0830 hrs. For the third generating unit, the Directed Participant received compensation for the provision of energy pursuant to the direction, in accordance with NER clause 3.15.7(c). The Directed Participant made no claims for additional compensation under NER clause 3.15.7B.
- From 0826 hrs to 0930 hrs, AEMO directed a third participant in Queensland to commit a generating unit. The Directed unit received compensation for the provision of energy pursuant to the direction, in accordance with NER clause 3.15.7(c). The Directed Participant submitted a claim to AEMO for additional compensation, which has been settled in accordance with NER clause 3.15.7B.

## Use by Registered Participants of inspection and testing rights

From 1 July 2015 to 30 June 2016 AEMO was not informed of any inspections conducted under clause 5.7.1, or any tests conducted under clause 5.7.2 of the National Electricity Rules.

*These provisions relate to the right of registered participants to enter the facilities and test the equipment of other participants to assess compliance with technical requirements.*

**This report details our performance from 1 July 2015 to 30 June 2016 in accordance with the Australian Energy Market Commission Establishment Act (SA) and the Australian Energy Market Commission Establishment Regulations Act 2005 (SA)**

The AEMC Annual Report 2015-2016 is prepared in accordance with the Australian Energy Market Commission Establishment Act 2004 (SA) (the Act) and satisfies the requirements of the Australian Energy Market Commission Establishment Regulations 2005 (SA). This index indicates where each of the items which the AEMC must report on is located within the report.

- 1) A report of the AEMC under section 27 of the Act must include a report on the following in respect of the financial year concerned:
  - a) the National Energy Law provisions and other legislative provisions that confer functions on the AEMC  
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  - b) the AEMC's relationship to other bodies involved in the administration of National Energy Laws  
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  - c) the membership and organisation of the AEMC  
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  - d) the AEMC's strategic plans and the relationship of the plans to objectives set out in the National Energy Laws  
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  - e) the AEMC's activities and their efficiency and effectiveness  
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  - f) the AEMC's financial affairs  
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  - g) disclosures made by Commissioners under section 22 of the Act  
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  - h) positions in the employment of the AEMC, including salary levels for the positions, any positions created or filled and any positions abolished or vacated  
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  - i) the extent to which external consultants have been engaged by the AEMC, the nature of the work undertaken by the consultants and the total cost to the AEMC of the consultancies  
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  - j) the occupational health, safety and rehabilitation programs of the AEMC and their effectiveness  
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  - k) any instances of fraud in the operations of the AEMC and the strategies implemented to prevent and control fraud  
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  - l) in relation to electricity
- I. the extent to which the operation of the Rules has met the national electricity market objective and the strategic development of the Rules to meet the national electricity market objective.  
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- II. Any statements of policy principles that have been issued by the MCE in relation to the AEMC and any directions that have been given by the MCE to the AEMC  
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- III. The Rule making activities of the AEMC under the National Electricity Law, including
  - A) requests for rules in each of the categories of jurisdictional derogations, participant derogations, non-controversial Rules and urgent Rules and  
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# Appendix

AEMC Index of Rules, Reviews  
and Advice 2015-2016

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**Table A Electricity rules made by the AEMC in 2015-2016**

ELECTRICITY RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/IMPACT
Demand Management Incentive Scheme	Rule 2015 No. 8 (Transitional provisions – NER Version 73; remaining provisions to be consolidated into a new version of the NER on commencement)	20 Aug 2015	20 Aug 2015, 1 Dec 2016	COAG Energy Council, Total Environment Centre	Standard	<p>This rule, which is in line with proposals from the Total Environment Centre and COAG Energy Council, will encourage electricity distribution networks to make efficient decisions in relation to network expenditure, including investment in demand management. The rule amends the existing demand management incentive scheme arrangements to provide greater clarity to the AER and stakeholders in respect of how a demand management incentive scheme and a demand management innovation allowance should be designed and applied.</p> <p><b>Next steps:</b> The AER must develop and publish an incentive scheme and innovation allowance by 1 December 2016. This will enable these mechanisms to be applied from the next round of distribution regulatory determinations, which will start to be prepared in early 2017.</p>
AEMO Access to Demand Forecasting Information	Rule 2015 No. 9 (NER Version 74)	22 Oct 2015	22 Oct 2015	COAG Energy Council	Standard	<p>This rule explicitly recognises demand forecasting at a connection point and regional level as a National Transmission Planner function in the NER. As a result, there is no doubt that AEMO can compel persons to provide connection point data and information to prepare demand forecasts using its information gathering powers in the NEL, namely market information orders and market information notices. The rule also requires AEMO to publish the demand forecasts and a sufficient amount of information used to prepare the forecasts to enable an understanding of how the forecasts were developed in the National Transmission Network Development Plan database, subject to confidentiality of the information.</p> <p><b>Next steps:</b> This rule will take effect on 1 July 2017.</p>
Common Definitions of Distribution Reliability Measures	Rule 2015 No. 10 (NER Version 75)	29 Oct 2015	5 Nov 2015	COAG Energy Council	Expedited	<p>This rule gives the AER responsibility for producing, maintaining and updating a guideline of common definitions of distribution reliability measures. The guideline is likely to promote consistency and transparency in the specification and reporting of distribution reliability measures.</p> <p><b>Next steps:</b> The AER must publish the initial guideline by 30 June 2017.</p>

ELECTRICITY RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/IMPACT
Second Minor Changes 2015	Rule 2015 No. 11 (NER Version 75)	5 Nov 2015	5 Nov 2015	AEMC	Expedited	Minor rule changes are made annually, or as needed, to correct minor errors and make non-material changes to the rules. They improve the quality of the rules in terms of accuracy and consistency.
Expanding Competition in Metering and Related Services	Rule 2015 No. 12 (Transitional provisions – NER Version 76; remaining provisions to be consolidated into a new version of the NER on commencement)	26 Nov 2015	26 Nov 2015, 1 Dec 2017	COAG Energy Council	Standard	<p>This rule, and the corresponding retail rule, will remove the networks' effective metering monopoly and give consumers more opportunities to access a wider range of energy services. This represents another step forward in the Power of Choice reforms which have laid the foundation for consumers to make the choices that suit them best on what services they want and how they manage their bills. The new rules will increase competition between retailers, networks and others to use advanced metering to deliver new services, such as actively controlling appliances that use electricity, to the consumers who want them.</p> <p>The information and services available through advanced metering can make it quicker for consumers to switch retailers, allow them to decide how often they want to be billed, and provide them with better information about how they can change their electricity use to save money if they want to. Consumers will also benefit from more accurate meter reads.</p> <p><b>Next steps:</b> AEMO must review and update its procedures by 1 September 2016. The AER must develop and publish distribution ring-fencing guidelines by 1 December 2016. AEMO must develop and publish information regarding the application process for registration as a Metering Coordinator by 1 March 2017. Jurisdictional safety regulators will review and update their safety requirements. Retailers and distributors must amend their standard contracts by 1 December 2017. Businesses will need to update their internal systems and processes.</p>
Bidding in Good Faith	Rule 2015 No. 13 (NER Version 82)	10 Dec 2015	1 Jul 2016	Minister for Mineral Resources and Energy (SA)	Standard	<p>This rule will deter false or misleading bids by generators when they sell electricity into the wholesale market. If rebids are made at the last minute in response to changed market conditions, then the generator must keep a record of the reasons for those decisions. The rule changes also provide the AER with better tools to manage compliance with bidding rules and take enforcement action in cases of false or misleading rebidding.</p> <p><b>Next steps:</b> The rule comes into force on 1 July 2016.</p>

ELECTRICITY RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/IMPACT
Review Frequency for the Template for Generator Compliance Programs	Rule 2015 No. 14 (NER Version 77)	3 Dec 2015	17 Dec 2015	Reliability Panel	Expedited	<p>This rule amends the frequency of reviews by the Reliability Panel of the template for generator compliance programs from at least every three years, to at least every five years. The rule will result in a reduction in the administrative burden on stakeholders, and there is unlikely to be any reduction in registered participants' compliance with performance standards, or in the safety, reliability and security of the national electricity system.</p> <p><b>Next steps:</b> The next Review of Generator Compliance Templates is due in 2020, unless the AEMC requests the Reliability Panel to undertake a review before that time, for example due to material changes in technology or performance standards.</p>
Embedded Networks	Rule 2015 No. 15 (Transitional provisions – NER Version 77; remaining provisions to be consolidated into a new version of the NER on commencement)	17 Dec 2015	17 Dec 2015, 1 Dec 2016, 1 Dec 2017	AEMO	Standard	<p>Embedded networks are private electricity networks serving multiple premises. Many operators of embedded networks also sell electricity to their embedded network customers. This rule reduces barriers to embedded network customers buying electricity from retailers in the competitive retail market if they wish to do so. This will provide embedded network customers with the ability to choose the electricity products and services that suit them best. This rule change is part of the AEMC's market-wide energy reform program, Power of Choice.</p> <p><b>Next steps:</b> The ongoing provisions of the rule will commence on 1 December 2017 to coincide with the changes arising from the Competition in Metering rule change.</p>
Compensation Arrangements Following Application of an Administered Price Cap and Administered Floor Price	Rule 2016 No. 1 (Transitional provisions – NER Version 78; remaining provisions to be consolidated into a new version of the NER on commencement)	4 Feb 2016	4 Feb 2016, 29 Sep 2016	COAG Energy Council	Standard	<p>This rule improves the way eligibility for compensation is determined, and increases the flexibility, efficiency and transparency of the compensation claim assessment process. These amendments originate from recommendations to the COAG Energy Council in the AEMC's 2013 Review of Compensation Arrangements following an Administered Price, Market Price Cap or Market Floor Price.</p> <p><b>Next steps:</b> The ongoing provisions of the rule will commence on 29 September 2016.</p>

ELECTRICITY RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/IMPACT
Meter Replacement Processes	Rule 2016 No. 2 (Transitional provisions – NER Version 79; remaining provisions to be consolidated into a new version of the NER on commencement)	10 Mar 2016	10 Mar 2016, 1 Dec 2017	ERM Power	Standard	<p>This final rule provides clarity on the rights and obligations of parties at a connection point in respect of replacing a meter during the retail transfer process. It also supports a reduction in time in the period between completion of the retail transfer process and the installation of a new meter at a connection point. Both of these aspects should increase positive customer experiences in the market.</p> <p><b>Next steps:</b> The ongoing provisions of the rule will commence on 1 December 2017 to coincide with the changes arising from the Competition in Metering rule change.</p>
Energy Adequacy Assessment Projection Timeframes	Rule 2016 No. 3 (Transitional provisions – NER Version 80; remaining provisions to be consolidated into a new version of the NER on commencement)	19 May 2016	26 May 2016, 1 Nov 2016	AEMO	Expedited	<p>This rule reduces the frequency of Energy Adequacy Assessment Projection (EAAP) reporting from annual to quarterly, but requires AEMO to produce an additional EAAP if it becomes aware of new information that may materially alter the most recent EAAP. The Commission considers that the rule improves the balance between the benefits of reporting on energy constraints and the costs of producing an EAAP report.</p> <p><b>Next steps:</b> The ongoing provisions of the rule will commence on 1 November 2016.</p>
Registration of Proponents of New Types of Generation	Rule 2016 No. 4 (NER Version 80)	26 May 2016	26 May 2016	AEMO	Expedited	<p>This rule amends the definition of a 'generating unit' in the National Electricity Rules (NER). The rule change request arose from the AEMC's Integration of Energy Storage report, where a number of submissions to this project commented on a lack of clarity regarding this definition. The rules for eligibility for registration as a generator will now be technology-neutral so that non-traditional generation such as battery storage and solar PV can be appropriately included. This will promote efficient investment through promoting technological and process neutrality, as well as providing regulatory certainty as to those parties that can register as a generator.</p>



ELECTRICITY RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/IMPACT
Extension of the Reliability and Emergency Reserve Trader	Rule 2016 No. 5 (Schedule 1 and transitional provisions – NER Version 81; remaining provisions to be consolidated into a new version of the NER on commencement )	23 Jun 2016	23 Jun 2016, 1 November 2017	COAG Energy Council	Standard	<p>This rule omits the sunset clause for Reliability and Emergency Reserve Trader arrangements under the NER, which means that the RERT arrangements will continue unless and until a rule change amends or omits them. It also shortened the period allowed for AEMO to contract for reserves ahead of a projected reserve shortfall to minimise any market distortionary effects of the RERT's extension.</p> <p><b>Next steps:</b> The Reliability Panel must amend the RERT guidelines and AEMO must amend the RERT procedures to reflect these changes.</p>
Updating the Electricity B2B Framework	Rule 2016 No. 6 (Schedule 1 and transitional provisions – NER Version 82; remaining provisions to be consolidated into a new version of the NER on commencement)	30 Jun 2016	30 Jun 2016, 1 December 2017	COAG Energy Council, Red Energy and Lumo Energy	Standard	<p>The final rule updates the electricity business-to-business (B2B) framework, which provides for a standard form of communications between businesses for certain services related to small customer meters. It also amends the decision-making process for the Information Exchange Committee (IEC), which includes market participants, a consumer group and AEMO, to develop and recommend changes to B2B procedures.</p> <p><b>Next steps:</b> AEMO must develop new IEC election procedures and an IEC operating manual will be developed by August 2016. A new IEC will be formed by September 2016.</p>

**Table B Determinations to not make a rule in response to an electricity rule change request**

ELECTRICITY RULE REQUEST	DETERMINATION DATE	PROPONENT	CATEGORY	REASONS
Aligning Network and Retail Tariff Structures for Small Customers	17 Sep 2015	COAG Energy Council	Standard	<p>The AEMC considers that retailers have access to appropriate tools to help them manage the risk of misalignment between network and retail tariff structures, should a state or territory government require them to make a standing offer with a prescribed price structure to electricity consumers. While the proposed rule change request would have reduced retailers' risks, it would have also imposed additional risks and administrative costs on distribution businesses. In turn, these costs may have been passed on to all consumers in the form of higher network charges.</p>
Multiple Trading Relationships	25 Feb 2016	AEMO	Standard	<p>The Multiple Trading Relationships (MTR) rule change request, which looked at the ability of a customer to engage with multiple retailers at a premises, followed earlier work by the AEMC as part of the Power of Choice and Electric Vehicles reviews. These reviews recommended that further work should be done to explore how MTR might be encouraged. However the AEMC found that the current rules already allow customers to engage with multiple retailers at a premises and that other recent Power of Choice reforms remove the need for a new MTR framework.</p>

ELECTRICITY RULE REQUEST	DETERMINATION DATE	PROPONENT	CATEGORY	REASONS
Compliance with Dispatch Instructions	5 May 2016	Snowy Hydro	Standard	The AEMC decided not to make a rule following its consideration of whether to change the nature of the obligation on generators and other participants to comply with dispatch instructions from AEMO when supplying electricity into the market. The rule change request proposed replacing the strict obligation to comply with dispatch instructions with an obligation based on "reasonable endeavours". The Commission found that with a "reasonable endeavours" approach, generators are likely to be less diligent in complying with dispatch instructions. Over time, this could require AEMO to procure more frequency control services to manage frequency fluctuations on the power system and maintain system security, which could increase total system costs and ultimately wholesale electricity prices paid by customers. The Commission also found there is an appropriate level of regulatory certainty around the current strict obligation to comply with dispatch instructions.

**Table C Electricity rules under consideration at 30 June 2016**

ELECTRICITY RULE REQUEST	PROPONENT	INITIATED	CATEGORY	STATUS AT 30 JUNE 2016
Retailer-Distributor Credit Support Requirements	COAG Energy Council, AGL, Jemena	28 May 2015	Standard	The provision of credit support is one of a number of regulatory and commercial mechanisms available to distributors to manage the risks associated with the non-payment of network charges resulting from a retailer default. The COAG Energy Council, AGL and Jemena submitted separate rule change requests to amend retailer-distributor credit support requirements and the retailer insolvency cost pass-through provisions in the NER and NGR. These requests have been consolidated and will be addressed under a single process. At 30 June 2016 we were preparing the draft determination which is due to be published in October 2016.
Demand Response Mechanism and Ancillary Services Unbundling	COAG Energy Council	5 Nov 2015	Standard	The COAG Energy Council has proposed changes to the National Electricity Rules that would create a demand response mechanism in the National Electricity Market and unbundle the provision of ancillary services from the sale of electricity in the wholesale market. The COAG Energy Council submitted this rule change request to the AEMC following the completion by AEMO of a proposed design for the demand response mechanism. This work followed recommendations from the AEMC in its Power of Choice review that a demand response mechanism be developed for the wholesale market. However there have been significant changes in energy markets since this review was completed in 2012 which will inform the Commission's assessment of the rule change request. At 30 June 2016 we were preparing the draft determination, which is due to be published in September 2016.

ELECTRICITY RULE REQUEST	PROPONENT	INITIATED	CATEGORY	STATUS AT 30 JUNE 2016
Transmission Connection and Planning Arrangements	COAG Energy Council	26 Nov 2015	Standard	This rule change request is largely based on the connection and planning recommendations made by the AEMC in its Transmission Frameworks Review, which was completed in 2013. The objective of the recommendations made by the AEMC was to improve transparency, contestability and clarity in the connections frameworks, as well as to enhance the transmission planning and decision making frameworks. Amending these arrangements could reduce the complexity, ambiguity and lack of clarity in the NER transmission connection framework and redress the asymmetric power held by transmission network service providers (TNSPs) when negotiating with parties seeking connection to the transmission network. At 30 June 2016 we were reviewing submissions to the discussion paper.
Application of Offsets in the Prudential Margin Calculation	AEMO	10 Dec 2015	Standard	The prudential margin forms a part of the overall level of credit support provided by a Market Participant to AEMO, and protects against the risk of a payment shortfall, in the event of a Market Participant's default, to the remaining Market Participants who are net creditors in the National Electricity Market. This request proposes to remove the restriction on offsetting between trading amounts and reallocation amounts in the prudential margin calculation. This could reduce the level of credit support provided by market participants to AEMO without materially increasing the prudential risk to the NEM, and allow for more efficient use of market participants' capital. At the close of the reporting period, we had published the draft determination and were awaiting submissions from stakeholders.
Local Generation Network Credits	City of Sydney, Property Council of Australia, Total Environment Centre	10 Dec 2015	Standard	This request seeks to introduce a new payment from distribution networks to encourage local generation (also known as embedded or distributed generation) as an alternative to further investment in the network. Examples of local generation include solar panels and gas cogeneration units. The AEMC will investigate whether the current rules are effective in reflecting the network benefits provided by local generation or if a new mechanism is required. As at 30 June 2016 we were preparing the Draft Determination.
Non-scheduled Generation and Load in Central Dispatch	Snowy Hydro, ENGIE (formerly GDF Suez Australian Energy)	21 Apr 2016	Standard	These related requests seek to change AEMO's pre-dispatch and dispatch processes as they relate to non-scheduled generators and loads, on the basis that growth in the amount of non-scheduled generation is having a significant impact on market outcomes and may be limiting AEMO's ability to monitor and maintain the security of the power system. The two rule change requests were consolidated in April 2016. At 30 June 2016, we were considering submissions to the consultation paper.

ELECTRICITY RULE REQUEST	PROPONENT	INITIATED	CATEGORY	STATUS AT 30 JUNE 2016
Improving the Accuracy of Customer Transfers	COAG Energy Council	28 Apr 2016	Standard	This request, which seeks to improve the experience of customers when transferring to new electricity or gas retailers, is in response to the AEMC's 2014 Review of Electricity Customer Switching which found issues with the accuracy and timeliness of customer transfers. The review made six recommendations to improve specific aspects of the customer transfer process, including the two recommendations in this rule request: a standard for address data with the aim of reducing transfer errors and delays; and strengthening the obligations on retailers to promptly resolve erroneous customer transfers. At 30 June 2016 we were considering the outputs of a stakeholder workshop held on 24 June, and working on the draft determination.
Using Estimated Reads for Customer Transfers	COAG Energy Council	28 Apr 2016	Standard	This request, which proposes allowing small customers with manually-read meters to transfer to a new retailer based on an estimated meter read, rather than an actual meter read, is also based on a recommendation from the AEMC's 2014 Review of Electricity Customer Switching. The purpose of this requested change is to reduce the time it takes customers to change to a new electricity retailer. At 30 June 2016 we were considering the outputs of a stakeholder workshop on 24 June, and working on the draft determination.
Five Minute Settlement	Sun Metals Corporation	19 May 2016	Standard	Settlement refers to the exchange of money for electricity supplied and consumed. This rule change request seeks to align the interval for settlement in the wholesale electricity market, which is currently 30 minutes, with the five minute interval used to schedule the supply of electricity to the market. Under the proposed rule change, generators would receive prices that reflect conditions in the wholesale market in each five minute period. Retailers and large consumers could choose to pay the five minute price or continue under the existing arrangements. At 30 June 2016 we were reviewing submissions to the consultation paper.
Market Participant Suspension Framework	COAG Energy Council	9 Jun 2016	Standard	Market participants may be suspended from the market if AEMO deems it necessary to do so in order to remove a threat to the financial integrity of the National Electricity Market. One of the triggers for this suspension decision is when an external administrator is appointed to the market participant. If a company has more than one registration – for example as a generator and a retailer – the current rules require the suspension of all registrations. This rule change request was received from the COAG Energy Council in response to the AEMC's recommendations in the NEM Financial Market Resilience Review, which was completed in 2015. It proposes a more selective approach, where the suspension of some but not all of the registrations is permitted and would clarify that AEMO has the discretion to not suspend a market participant under external administration. The rule, if made, could reduce security of supply concerns relating to suspending the generation assets of failed market participants. At 30 June 2016 we were reviewing submissions to the consultation paper.

ELECTRICITY RULE REQUEST	PROPONENT	INITIATED	CATEGORY	STATUS AT 30 JUNE 2016
Register of Large Generator Connections	COAG Energy Council	23 Jun 2016	Expedited	Currently, transmission and generation investment decisions are driven by separate processes. TNSPs have statutory obligations to maintain reliability of supply to end-users. They are subjected to incentive based regulation and undertake an economic cost-benefit test to help decide what investment to make. Investment in generation assets is market driven and involves consideration of factors such as expectations of future demand, availability of an energy source and proximity to transmission infrastructure. This rule change request, submitted by the COAG Energy Council, arises from a recommendation made in the AEMC's Optional Firm Access, Design and Testing review. It would require transmission network service providers (TNSPs) to create and maintain a register for large generator connections and to undertake impact assessments for new large generator connections to TNSP networks. If made, this rule may increase the level of transparency relating to the effect of transmission connections in the NEM on the network. At 30 June 2016 a consultation paper had been released and we were awaiting submissions.



**Table D Gas rules made by the AEMC in 2015-2016**

GAS RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/IMPACT
DWGM Operating Schedules	Rule 2015 No. 4 (NGR Version 28)	22 Oct 2015	5 Nov 2015	AEMO	Expedited	This rule supports continuing market operations in the Declared Wholesale Gas Market through the production and publication of feasible operating schedules by AEMO. It is likely to promote regulatory certainty and transparency by clarifying the process AEMO must follow in order to produce and publish DWGM operating schedules. In doing so, the rule is expected to benefit consumers in the long term by promoting the efficient operation of natural gas services.
Enhanced Information for Gas Transmission Pipeline Capacity Trading	Rule 2015 No. 5 The provisions will be included in a new version of the NGR on commencement	17 Dec 2015	6 Oct 2016	COAG Energy Council	Standard	<p>This rule requires gas transmission pipeline, production facility and storage facility operators to provide more information on their operations to the east coast market. The reporting of outlooks of uncontracted pipeline and storage capacity, more detailed facility data, additional gas flow data and more information on the operation of gas storage facilities will increase market transparency. The additional information will provide stakeholders with a better understanding of gas market supply and demand conditions. The changes are also likely to reduce search and transaction costs, thereby promoting pipeline and storage capacity trading. This should lead to more efficient utilisation of and investment in gas infrastructure, reducing costs over the longer term to the benefit of gas consumers.</p> <p><b>Next steps:</b> This rule will commence on 6 October 2016.</p>
DWGM – AMDQ Allocation	Rule 2016 No. 1 (Transitional provisions – NGR Version 29; remaining provisions to be consolidated into a new version of the NER on commencement)	24 Mar 2016	24 Mar 2016; 25 Oct 2016	AEMO	Standard	<p>This rule clarifies the type of market benefit instruments created when an augmentation of the gas transmission network is completed. It also clarifies who is responsible for undertaking the allocation process for market benefit instruments. These changes will promote regulatory certainty, increase timely provision of information and promote an efficient allocation process.</p> <p><b>Next steps:</b> AEMO will develop the necessary procedures before 25 October 2016.</p>

**Table E Gas rules under consideration at 30 June 2016**

GAS RULE CHANGE REQUEST	PROPONENT	INITIATED	CATEGORY	STATUS AT 30 JUNE 2014
Retailer-Distributor Credit Support Requirements	Jemena, AGL	28 May 2015	Standard	See details Table C.
Gas Day Harmonisation	COAG Energy Council	3 Mar 2016	Standard	This request from the COAG Energy Council proposes to harmonise the gas day start times of the Declared Wholesale Gas Market (DWGM) in Victoria, the Short Term Trading Market (STTM) in Adelaide, Sydney and Brisbane and the Wallumbilla Gas Supply Hub (GSH). Benefits to making the proposed rule could include reducing complexities across the facilitated gas markets and increasing the opportunities for trade and arbitrage between regions. At 30 June 2016 we were preparing the draft determination.

GAS RULE CHANGE REQUEST	PROPONENT	INITIATED	CATEGORY	STATUS AT 30 JUNE 2014
Improving the Accuracy of Customer Transfers	COAG Energy Council	28 Apr 2016	Standard	See details Table C

**Table F Retail rules made by the AEMC in 2015-2016**

RETAIL RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/IMPACT
Expanding Competition in Metering and Related Services	Rule 2015 No. 1 (NERR Version 4)	26 Nov 2015	26 Nov 2015, 1 Dec 2017	COAG Energy Council	Standard	See details Table A
Meter Read and Billing Frequency	Rule 2016 No. 1 (Transitional provisions – NERR Version 6; remaining provisions to be consolidated into a new version of the NER on commencement)	23 Jun 2016	23 Jun 2016	Ergon Energy Queensland	Standard	This rule will enable more small customers to receive energy bills based on their actual consumption, reducing the amount of estimated bills. Most bills will still be issued within three months, but retailers are allowed an extra eight day window to issue a bill if a meter read is delayed. Bills based on actual consumption provide consumers with better information about how they use energy. This helps them to plan and budget for their bills, and also assists them in managing their usage to lower their energy charges.

**Table G Retail rules under consideration at 30 June 2016**

RETAIL RULE REQUEST	PROPONENT	INITIATED	CATEGORY	STATUS AT 30 JUNE 2016
Improving the Accuracy of Customer Transfers	COAG Energy Council	28 Apr 2016	Standard	See details Table C
Using Estimated Reads for Customer Transfers	COAG Energy Council	28 Apr 2016	Standard	See details Table C

**Table H Market reviews and advice summary table**

AEMC PROJECT	PROPONENT	START DATE	END DATE	STATUS AT 30 JUNE 2016
<b>COAG ENERGY COUNCIL INITIATED REVIEWS</b>				
Implementation Advice on the Shared Market Protocol	COAG Energy Council	18 Dec 2014	8 Oct 2015	Completed
2015 Residential Electricity Price Trends	COAG Energy Council	19 Jan 2015	4 Dec 2015	Completed
East Coast Wholesale Gas Market and Pipeline Frameworks Review	COAG Energy Council	20 Feb 2015	23 May 2016	Completed
2016 Retail Competition Review	COAG Energy Council	22 Oct 2015	30 Jun 2016	Completed
Review of the Victorian Declared Wholesale Gas Market	COAG Energy Council	4 Mar 2015	Continuing	Preparation of draft final report
2016 Residential Electricity Price Trends	COAG Energy Council	11 Jan 2016	Continuing	Preparation of final report
<b>OTHER REVIEWS AND ADVICE</b>				
Integration of Energy Storage: Regulatory Implications	AEMC	26 Jan 2015	3 Dec 2015	Completed
Strategic Priorities for Energy Market Development 2015	AEMC	9 Feb 2015	26 Nov 2015	Completed
Last Resort Planning Power – 2015 Review	Rules requirement	20 May 2015	3 Dec 2015	Completed
Review of the Last Resort Planning Power Guidelines	AEMC	20 May 2015	24 Sep 2015	Completed
Advice on the Integration of Energy and Climate Policy	AEMC	1 Jan 2016	Continuing	Preparation of advice
Review of Compensation Guidelines	Rules requirement	3 Mar 2016	Continuing	Preparation of final report
<b>RELIABILITY PANEL PROJECTS</b>				
Annual Market Performance Review 2014	Rules requirement	6 Nov 2014	16 Jul 2015	Completed
Review of the System Restart Standard	AEMC	30 Jun 2015	Continuing	Preparation of draft report
Annual Market Performance Review 2015	Rules requirement	17 Dec 2015	Continuing	Preparation of final report

**Table I Market reviews and advice completed**

REVIEW NAME	OVERVIEW	EXPECTED BENEFITS/IMPACTS FROM RECOMMENDATIONS
Annual Market Performance Review 2014	The Annual Market Performance Review is a requirement under the National Electricity Rules. It considers the reliability, security and safety of the National Electricity Market (NEM) in terms of performance against standards and guidelines determined by the Reliability Panel.	The Reliability Panel published its final report on 16 July 2015. It found that the reliability of the NEM continued to remain within the reliability standard, as there was no unserved energy (USE) due to reliability events in the 2013-14 financial year. There were also no power system incidents that resulted in interruptions to customer load. There were however, a number of incidents where frequency was outside the operating standards, but these incidents were effectively managed and actions were taken, or were in the process of being completed, to address any issues identified.
Implementation Advice on the Shared Market Protocol	A shared market protocol will define the language or format for the communications sent between businesses seeking access to the services available from smart meters. Having a default standard for communication is expected to promote competition in the market for advanced metering services by reducing barriers to entry for new energy service companies while not inhibiting innovation in the method of communications. This advice builds on the AEMC's 2014 Framework for Open Access and Common Communication Standards Review, which recommended that a shared market protocol should be introduced. It also follows the Commission's 2012 Power of Choice Review, which set out proposed reforms to support greater participation by consumers in Australia's electricity market.	The final advice on how a shared market protocol for smart meters could be implemented is an important step in the establishment of a competitive market for new energy services. A shared market protocol is expected to promote competition in the market for advanced metering services by reducing barriers to entry for new energy service companies while not inhibiting innovation in the method of communications. The final report recommended that a shared market protocol be implemented by updating the existing business-to-business (B2B) arrangements in the National Electricity Rules to provide for parties using advanced metering services. This advice was implemented through the Updating the Electricity B2B Framework rule change, for which a final rule was made in June 2016.
2015 Residential Electricity Price Trends	This report is the sixth annual residential electricity price trends report prepared by the AEMC at the request of the COAG Energy Council. The report provides information on the supply chain components expected to affect the trends in residential electricity prices for each state and territory of Australia over the three years from 2014-2015 to 2017-2018.	<p>This report seeks to strengthen consumer understanding of and engagement in the electricity market by providing information on the drivers of potential movements in prices. It shows how trends in the competitive market and regulated networks sectors of the electricity industry affect overall prices paid by residential consumers, and identifies the relative contribution of these drivers to electricity price movements.</p> <p>The 2015 report found that over the three years, residential electricity prices are expected to be flat or slightly increasing for most jurisdictions, a trend which is being driven by increasing wholesale electricity costs being partly offset by decreasing network costs. Environmental policy costs, particularly those associated with the Large-scale Renewable Energy Target that requires retailers to source a proportion of their electricity from renewable sources, and solar feed-in tariff schemes in some jurisdictions, are expected to rise.</p> <p>Price trends identified in this report are not a forecast of actual prices, but rather a guide as to what may influence prices based on current expectations, assumptions and government legislation.</p>

REVIEW NAME	OVERVIEW	EXPECTED BENEFITS/IMPACTS FROM RECOMMENDATIONS
Integration of Energy Storage: Regulatory Implications	<p>Technological advances, particularly in battery storage, are making the functions that storage devices perform cheaper and more accessible to a wider range of electricity consumers. Greater penetration, including at the residential level, allows the technology to be used in a much more disaggregated fashion and under the control of consumers. This has led to questions about whether the existing regulatory frameworks are sufficiently flexible to support the integration of storage technologies.</p> <p>The AEMC has undertaken analysis of storage and its uses across the sector. The AEMC's analysis has also been informed by collaboration with the CSIRO, who provided a technical assessment of how different storage technologies could be utilised and modelled the possible uptake rates across the NEM. With this input, the AEMC has identified several issues with the regulatory framework that may be acting as a barrier to the integration of storage.</p>	<p>The Commission's analysis was founded on the principle that consumer choices should drive energy market development. Utilising the competitive market frameworks currently in place will allow consumer preferences to drive how the sector develops. While the existing regulatory framework, and associated processes for developing it, can largely accommodate the installation of storage, the Commission has made a number of recommendations designed to: establish a level playing field by clarifying how regulated network businesses can use storage to meet network needs; remove barriers to parties using storage capability to participate in the National Electricity Market; simplify and streamline the process for the connection of storage capability to the electricity network; and clarify that the optimisation and control of storage functionality should, except for system security and safety reasons, be determined through market-based signals.</p> <p>The AEMC will work collaboratively with AEMO, the AER and other stakeholders to progress the recommendations.</p> <p>The project is part of the Commission's technology-focused work program to understand how technological change may affect the National Electricity Market and develop regulatory arrangements that continue to support flexible and resilient markets.</p>
Strategic Priorities for Energy Market Development 2015	<p>Every two years the AEMC considers the strategic priorities for the development of Australia's electricity and natural gas markets. This project was the third strategic priorities review. The purpose of the strategic priorities is to frame key issues for consideration and dialogue among consumer groups, market participants and policy makers. To the extent that the AEMC has a degree of discretion over its work program, the priorities assist with the prioritisation of resources and the development of new work streams, as well as directing stakeholder engagement priorities.</p>	<p>The AEMC's 2015 Strategic Priorities for Energy Market Development were developed in consultation with consumer representatives, industry and governments. These priorities are designed to assist the COAG Energy Council in the formation of their policy priorities over the coming years and help guide the AEMC's market development advice. The AEMC's 2015 Strategic Priorities for Energy Market Development are:</p> <ul style="list-style-type: none"> <li>• Consumer priority: Enabling consumers to make informed decisions in competitive retail markets;</li> <li>• Gas priority: Promoting the development of efficient gas markets; and</li> <li>• Markets and network priority: Market and network arrangements that encourage efficient investment and flexibility</li> </ul> <p>The strategic priorities for the development of the energy market look to the future to help foster an energy sector with the flexibility to respond to changes in technology and business models, increasingly being driven by consumer choices. By adopting these strategic priorities, the AEMC remains focussed on an efficient, safe, secure and reliable energy system, which delivers outcomes that benefit consumers.</p>



REVIEW NAME	OVERVIEW	EXPECTED BENEFITS/IMPACTS FROM RECOMMENDATIONS
East Coast Wholesale Gas Market and Pipeline Frameworks Review	<p>At its December 2014 meeting, the COAG Energy Council released its Vision for the Australian gas market, and asked the AEMC to review the role and objectives of the facilitated gas markets currently in operation in eastern Australia. The AEMC review was also to set out a road map for the continued development of the markets in order to meet the Council's Vision. The Terms of Reference required the AEMC to consider:</p> <ul style="list-style-type: none"> <li>the appropriate structure, type and number of facilitated markets on the east coast, including options to enhance transparency and price discovery, and reduce barriers to entry;</li> <li>opportunities to improve effective risk management, including through liquid and competitive wholesale spot and forward markets which provide tools to price and hedge risk; and</li> <li>changes to strengthen signals and incentives for efficient access to, use of and investment in pipeline capacity.</li> </ul> <p>The review was conducted over two stages, with the Stage 2 Final Report provided to the COAG Energy Council in May 2016, and published in July 2016.</p>	<p>The final report provides a series of tangible recommendations to improve market liquidity and transparency in line with the COAG Energy Council's Vision for Australia's gas markets. It addresses issues raised by both the AEMC and the Australian Competition and Consumer Commission (ACCC) about gas access and pricing, including potential abuse of market power.</p> <p>Key recommendations include: redesigning the wholesale market by concentrating wholesale gas trading at two hubs – a Northern Hub at Wallumbilla in Queensland and a Southern Hub in Victoria, with improved trading arrangements and price discovery in Victoria in order to reduce market complexity and concentrate trading at key points of demand and supply on the East Coast; facilitating short-term pipeline capacity trading markets, including a short-term auction for unused capacity and improved capacity trading platforms; and improving information provided through the Gas Bulletin Board to enable market participants to make better-informed decisions on the trading of gas and other resources.</p> <p>Initial reforms could be introduced immediately following COAG Energy Council agreement, with implementation of the complete package to occur over several phases involving changes to the National Gas Law and regulations, and new rules.</p>
Last Resort Planning Power – 2015 Review	<p>The Last Resort Planning Power is an oversight mechanism, conferred on the AEMC. The purpose is to ensure timely and efficient inter-regional transmission investment for the long-term interests of consumers. The AEMC is required to report annually on the exercise of the last resort planning power.</p>	<p>The AEMC has decided not to exercise the last resort planning power in 2015. In conducting its analysis, the AEMC did not find any inter-regional constraints that are not being considered by transmission network service providers in their 2015 transmission annual planning reports.</p>
Review of the Last Resort Planning Power Guidelines	<p>To support the AEMC's last resort planning power role, the NER requires the AEMC to develop and publish last resort planning guidelines. The purpose of the guidelines is to provide information about the AEMC's approach to exercising the last resort planning power and establish the frameworks for information gathering and public communication to be followed by the AEMC. In 2014, the AEMC noted its intention to review the last resort planning power guidelines. The previous guidelines review was undertaken in 2010.</p>	<p>The AEMC has incorporated a description of the three stage process the AEMC follows when deciding whether to exercise the last resort planning power into the guidelines, in order to provide more transparency and certainty to stakeholders. In addition, we undertook streamlining of the guidelines and updated a number of out of date cross references to the NER. The amended guidelines took effect on 24 September 2015.</p>

REVIEW NAME	OVERVIEW	EXPECTED BENEFITS/IMPACTS FROM RECOMMENDATIONS
2016 Retail Competition Review	<p>This annual review of energy retail competition assesses the state of competition in the small customer electricity and natural gas retail markets in all National Electricity Market (NEM) jurisdictions.</p> <p>Retail competition reviews are conducted in accordance with the framework set out in the Australian Energy Market Agreement (AEMA).</p> <p>A range of information sources are used to form an evidence base to assess the state of competition against the following five competitive market indicators:</p> <ul style="list-style-type: none"> <li>• the level of customer activity in the market;</li> <li>• customer satisfaction with market outcomes;</li> <li>• barriers to retailers entering, expanding or exiting the market;</li> <li>• the degree of independent rivalry; and</li> <li>• whether retail energy prices are consistent with a competitive market.</li> </ul>	<p>This review provides advice to governments to support a commitment made by all jurisdictions under the AEMA to remove retail energy price regulation where effective competition can be demonstrated.</p> <p>The 2016 review found that retail competition remains effective for electricity markets in South East Queensland, New South Wales, Victoria, and South Australia. Electricity and gas retail competition is less effective in the Australian Capital Territory and effective competition is yet to emerge in Tasmania and regional Queensland. There is effective competition in retail gas markets in New South Wales, Victoria and South Australia.</p> <p>The AEMC recommended: removing energy price regulation where competition is effective so consumers can benefit more from shopping around (electricity prices in South East Queensland and gas in New South Wales); developing a market-wide awareness and engagement strategy to make energy-shopping easier and improve customer confidence; continuing to harmonise regulation to reduce red tape for energy businesses or retailers competing across jurisdictions; reviewing concession policies and targeting them better; and for the AEMC and Energy Consumers Australia to work alongside the COAG Energy Council to determine how the energy protections framework needs to evolve.</p>

**Table J – Market reviews and advice current at 30 June 2016**

REVIEW NAME	OVERVIEW	STATUS
Review of the Victorian Declared Wholesale Gas Market	<p>In March 2015 the Victorian Government, with the agreement of the COAG Energy Council, asked the AEMC to conduct a review of the Victorian Declared Wholesale Gas Market (DWGM). The Terms of Reference for the review require the AEMC to consider:</p> <ul style="list-style-type: none"> <li>• The ability of market participants to manage price and volume risk in the DWGM and options to increase the effectiveness of risk management activities;</li> <li>• Whether market signals and incentives are providing for efficient use of, and efficient and timely investment in, pipeline capacity on the Declared Transmission System (DTS);</li> <li>• If, and to what extent, the current DWGM arrangements inhibit trading of gas between the DTS and interconnected facilities and pipelines; and</li> <li>• Whether the DWGM arrangements continue to facilitate market entry and promote competition in upstream and downstream markets and how this could be improved.</li> </ul>	<p>In December 2015 the AEMC published the draft report for the Review of the Victorian Declared Wholesale Gas Market which made recommendations for changes to the wholesale gas market in Victoria to improve price and investment signals. The AEMC's recommendations for the Victorian gas market form part of a broader roadmap for gas market development outlined in the East Coast Gas Review's Stage 2 final report.</p> <p>The AEMC's recommended changes in Victoria seek to develop a new "Southern Hub" for trading gas, and are focused on two key areas: that trading should occur on a voluntary, continuous basis but be underpinned by a mandatory residual balancing mechanism to provide security of supply; and replacing the existing market carriage pipeline arrangements with a system of entry and exit rights for capacity allocation. These changes would provide market participants with the opportunity to trade gas independently of its location in the system and with any other participant on a continuous basis, allowing them to better manage their gas portfolios in response to their short and long term needs. The system of entry and exit capacity rights would also contribute to decision-making about future pipeline investment by creating signals driven by market participant choices to book entry and/or exit capacity. A subsequent discussion paper was published in March 2016 to explore key design issues related to the development of a virtual southern hub covering Victoria's gas transmission system.</p> <p>On 13 May 2016, the Victorian Government extended the period of time for this review to enable the AEMC to undertake further analysis and consultation with stakeholders. At the close of the reporting period, the AEMC was consulting with the participants of a technical working group to further progress the details design of the AEMC's proposed Southern Hub gas market model for Victoria.</p>
Review of the System Restart Standard	<p>The System Restart Standard is part of the arrangements for restoration of the system in the National Electricity Market (NEM), in the event of a large scale loss of supply to both generators and consumers. The Australian Energy Market Commission made a rule on 15 April 2015 that amended the requirements for the Panel in determining the System Restart Standard. Consequently, the AEMC provided the Panel with Terms of Reference on 30 June 2015 to review the Standard.</p>	<p>The Reliability Panel published an issues paper in November 2015 which outlined the Panel's approach to the review for public comment. In assessing the new Standard, the Panel must examine the trade-off between the ongoing cost for the provision of SRAS and the potential cost of an extended outage. In addition, the Panel will consider the physical underpinnings of the power system. The Panel is currently working on a draft report and draft standard that is due to be published in August 2016, followed by publication of the final report in November.</p>

REVIEW NAME	OVERVIEW	STATUS
Annual Market Performance Review 2015	The Annual Market Performance Review is a requirement under the National Electricity Rules. It considers the reliability, security and safety of the National Electricity Market (NEM) in terms of performance against standards and guidelines determined by the Reliability Panel.	<p>The Reliability Panel published its draft report on 16 June 2016. It found that there was no unserved energy in the National Electricity Market and that the reliability of the power system continued to remain within the reliability standard. Heatwaves, the warmest spring on record and a cooler than average autumn meant demand was higher than what it would have been. Average operational consumption plateaued following a decline in recent years.</p> <p>Since the end of the 2014-2015 reporting period, two major operating incidents have occurred in the National Electricity Market: the trip of the Heywood interconnector in November 2015 and the trip and outage of the Basslink interconnector in December 2015. These incidents and implications of increasing large-scale intermittent generation will be assessed in detail in the 2016 review report which will be published for consultation later this year.</p>
2016 Residential Electricity Price Trends	Refer to overview for 2015 Residential Electricity Price Trends Report (Table I).	The 2016 Residential Electricity Price Trends Report is underway and expected to be published in late 2016.
Advice on the Integration of Climate and Energy Policy	Better integration of Australian energy policy and climate change policy – where they are designed to be mutually reinforcing – will contribute to their longevity and resilience. In this context, Energy Ministers tasked the Senior Committee of Officials (SCO) with preparing advice to allow the COAG Energy Council to better understand the potential impact of climate change policies on the NEM. The AEMC and AEMO have been asked to assist officials with this work.	The AEMC is continuing to work collaboratively with AEMO to prepare advice for SCO. This advice will allow the Energy Council to meaningfully engage in the Department of the Environment's 2017 Review of the Emissions Reduction Fund and Safeguard Mechanism.
Review of Compensation Guidelines	Administered price caps and administered floor prices help reduce volatility and limit risks for market participants, but in some cases they can cause market participants to incur a loss. The National Electricity Rules provide for compensation in some circumstances where these losses occur. The Compensation Guidelines support the operation of the clause which describes how compensation is to be determined by the AEMC if a claim is made by an eligible party following the application of an administered price cap or administered floor price. A new rule made by the AEMC in February 2016, which is due to commence operation in September 2016, requires that the Compensation Guidelines be amended prior to the commencement of the final rule.	The draft amended Compensation Guidelines and an Explanatory Statement were published on 9 June 2016. Draft changes related to the eligibility criteria and removing the requirement for the AEMC to appoint an expert panel; amendments relating to opportunity costs; and changing the frequency with which the Compensation Guidelines are reviewed. The amendments reflect changing conditions in the market and provide additional clarity for eligible participants on the assessment and valuation of opportunity costs when submitting a compensation claim. At 30 June 2016, we were considering submissions to the Discussion Paper.

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Citation

AEMC 2015-2016 Annual Report ©