

IT'S ALL
ABOUT
CONSUMERS

DRIVING

CHANGE

IN THE ENERGY MARKET

AN EVOLVING ENERGY MARKET EYES ON THE FUTURE



COMMISSION CHAIRMAN
JOHN PIERCE



CHIEF EXECUTIVE
PAUL SMITH

ALL AROUND US WE SEE THE EVIDENCE OF ACCELERATING CHANGE IN ENERGY MARKET DYNAMICS. INCREASINGLY **CONSUMERS WILL DRIVE EVEN MORE TRANSFORMATION.**

In this new world households, businesses, industry participants and investors must have confidence that regulatory frameworks can adapt. More than ever, we need competitive, efficient markets to keep the cost of energy supply as low as possible.

This year we saw the first exports of Liquefied Natural Gas (LNG) from Queensland start a production flow which is expected to make Australia the leading LNG exporter in the world by 2018. This, and the increased penetration of unconventional gas resources, is leading to unprecedented shifts in supply and demand driving changes in gas flows and prices.

In electricity, a very different approach to energy retailing is emerging. New and existing players are offering energy services such as connected home appliances and smart phone apps which optimise energy usage based on the personal preferences of individual energy shoppers. The supply chain is also responding to the widening adoption of local energy resources which ranges from solar panels on family homes supported by battery storage; to commercial buildings using built-in generators powered by renewable energy.

In this context, it is important that markets operate responsively. This will happen if incentives for investment are sound; and all consumers, big and small, can see the costs and benefits of emerging energy choices, whatever the future brings.

A series of arrangements we're putting in place will see more efficient price signals emerge, removing cross subsidisation and giving energy users the information they need to decide what technologies might work best for them to manage usage, and help reduce their energy costs. These new arrangements have started to take effect and we are seeing a move to more efficient tariff structures. With new and evolving technology having an ever greater influence on consumers' energy decisions these price signals are becoming more important day by day.

Transformation of the nation's energy markets has been underway for some years now and our work is increasingly focussed on delivering changes which will develop the market in ways that protect and enhance its resilience and effectiveness.

A number of reviews, either underway or recently completed have also contributed to understanding how sectors of the market like wholesale gas may need further development.

A theme in much of this work is how best to manage uncertainty. Uncertainty about how fast some technology may be adopted; about future investment; and how consumer responses in a carbon-sensitive world might affect the nature and levels of demand.

The future, particularly in a dynamic and increasingly technology-driven environment, may be hard to predict. But this should not be a cause for alarm if our market frameworks are built on sound policy; and governance processes are in place to enable the orderly and evidence-based review of market requirements.

We will not take our eyes off the future. We are developing a robust understanding of how the energy market needs to evolve.

We have not approached market development from a perspective that any particular technology, form of supply, or way to reduce demand is inherently superior. Instead we focus on trying to create a framework that will allow consumers, with their own preferences, to drive the outcomes. In our view, putting consumers in charge is the best way to be confident that outcomes will best reflect what consumers want.

We are optimistic that collaboration between governments, industry, consumer groups and market institutions will enable Australia to harness the benefits this new era of transformation may bring.

John Pierce
CHAIRMAN

Paul Smith
CHIEF EXECUTIVE

THE CHANGING ENERGY LANDSCAPE

HOW OUR WORK IS MAKING A DIFFERENCE

KEY PROJECTS 2014-2015

ELECTRICITY PRICE TRENDS REVIEW
Our annual review showed the cost of poles and wires as a retail price driver was mainly flat or falling under the new regulatory framework. New rules made by us are being applied by the AER so people don't pay more than necessary.

CONTRIBUTIONS TO RELATED POLICY DEBATES
We participated in debates on options to achieve environmental, social or other policy objectives which might impact energy markets. See our submission to the Emissions Reductions Fund Safeguard Mechanism which discussed ways to achieve the Commonwealth's emissions objectives while minimising impacts on energy markets and ultimately costs to energy consumers.

CLEAR NETWORK PRICE SIGNALS
New rules mean consumers will see the different costs of supplying electricity at different times. This will help people make informed decisions on how they use electricity and potentially save on power bills.

FINANCIAL RESILIENCE REVIEW
We gave recommendations to the COAG Energy Council to improve the National Electricity Market's ability to respond to financial failure of a major energy company so customers continue to get electricity while the market adjusts.

BENCHMARKING NETWORK PERFORMANCE
Under our rules, the Australian Energy Regulator must publish annual reports comparing the efficiencies of electricity network businesses. The first of these reports was published in November 2014.

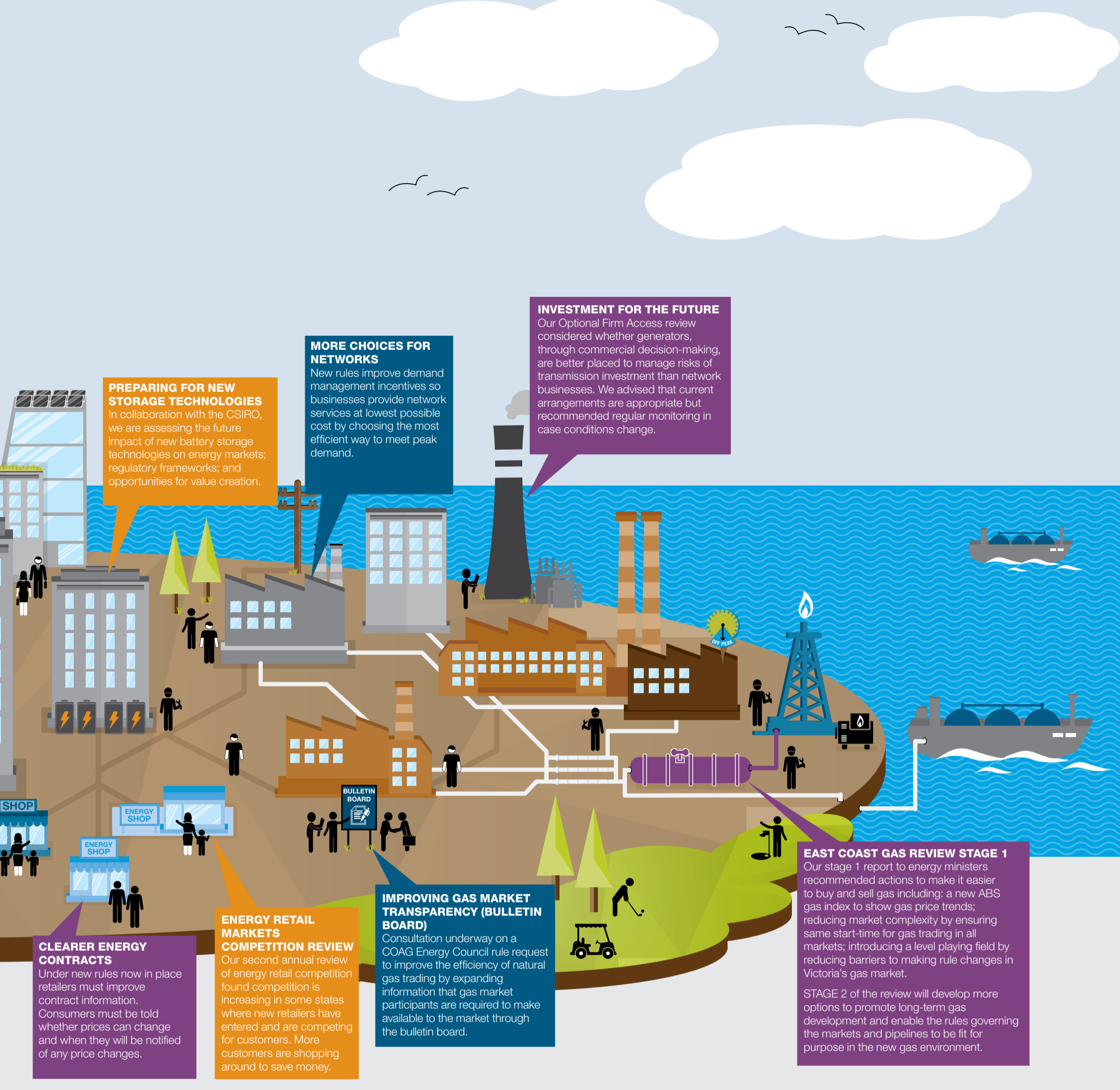
CUSTOMER ACCESS TO CONSUMPTION DATA
Industry is phasing in arrangements to implement new rules making it easier for customers to get easy-to-understand information on their electricity usage from distribution networks and retailers.

SUPPORTING INNOVATION IN ADVANCED METERS
Related to our metering competition work we are developing a protocol to define the default language or format of communication used to transmit messages between parties accessing smart meter services. This would make it easier for new energy service providers.

EXPANDING COMPETITION IN METERING
Public consultation was underway on new rules to remove the networks' effective metering monopoly and allow new competitors to offer metering services – giving consumers a choice to either retain their existing working meters or take up new services that advanced meters enable.

KEY CHANGES IN MARKET DYNAMICS

<p>People are making energy consumption choices in a workably competitive market and driving the transformation of energy services.</p>	<p>More than ever before households and businesses are actively participating in markets and choosing the energy services they value most from a widening range of high-tech options. In 2010 Australia had virtually zero PV capacity. Today around 1.3 million households have rooftop solar. At the same time, gas flows are more dynamic.</p>	<p>Allowed revenues for network businesses are now set using the expenditure required by prudent, efficient operators as a benchmark. Companies have incentives to beat the benchmarks so they can keep some of their savings and pass the rest on to customers.</p>
<p>POWER OF CHOICE Our work provides people with more options in how they use energy and manage their bills.</p>	<p>NEW APPROACHES TO ELECTRICITY RETAIL Our work is focussed on encouraging a framework to allow a smarter new energy services market.</p> <p>IMPROVING HOW GAS IS BOUGHT AND SOLD AEMC reviews are looking at how gas, once it leaves the ground, can get to consumers in the most efficient way. This work will provide a framework for developing wholesale gas markets and transmission pipeline arrangements in a rapidly changing sector.</p>	<p>COST-REFLECTIVE NETWORK PRICING In 2015 network companies were consulting consumers and retailers on new tariffs and submitting their draft proposals to make network prices reflect the cost of providing network services.</p> <p>This is about sending price signals to everyone in the market about the costs of using the network at different times and locations so the most efficient investment and consumption decisions can be made.</p>



PREPARING FOR NEW STORAGE TECHNOLOGIES

In collaboration with the CSIRO, we are assessing the future impact of new battery storage technologies on energy markets; regulatory frameworks; and opportunities for value creation.

MORE CHOICES FOR NETWORKS

New rules improve demand management incentives so businesses provide network services at lowest possible cost by choosing the most efficient way to meet peak demand.

INVESTMENT FOR THE FUTURE

Our Optional Firm Access review considered whether generators, through commercial decision-making, are better placed to manage risks of transmission investment than network businesses. We advised that current arrangements are appropriate but recommended regular monitoring in case conditions change.

CLEARER ENERGY CONTRACTS

Under new rules now in place retailers must improve contract information. Consumers must be told whether prices can change and when they will be notified of any price changes.

ENERGY RETAIL MARKETS COMPETITION REVIEW

Our second annual review of energy retail competition found competition is increasing in some states where new retailers have entered and are competing for customers. More customers are shopping around to save money.

IMPROVING GAS MARKET TRANSPARENCY (BULLETIN BOARD)

Consultation underway on a COAG Energy Council rule request to improve the efficiency of natural gas trading by expanding information that gas market participants are required to make available to the market through the bulletin board.

EAST COAST GAS REVIEW STAGE 1

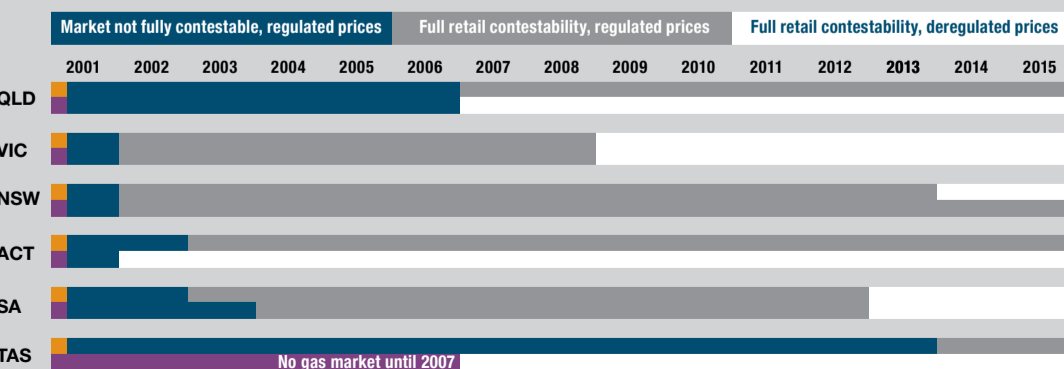
Our stage 1 report to energy ministers recommended actions to make it easier to buy and sell gas including: a new ABS gas index to show gas price trends; reducing market complexity by ensuring same start-time for gas trading in all markets; introducing a level playing field by reducing barriers to making rule changes in Victoria's gas market.

STAGE 2 of the review will develop more options to promote long-term gas development and enable the rules governing the markets and pipelines to be fit for purpose in the new gas environment.

There is evidence of effective competition in most parts of the energy market with governments in the process of removing retail price regulation. More retailers are in the market meeting customer needs and the AEMC's annual competition review released in June 2015 recommends actions to promote more competition including: giving people better information so they can benefit from increasing competition; raising awareness of trusted government-run price comparison websites; and making switching even faster and easier as proposed by the AEMC review of electricity customer switching.

The future is opening up to new energy possibilities. In this new world households, industry participants and investors must have confidence that regulatory frameworks can adapt – whatever comes. Our work program is focussed on supporting flexible and resilient energy markets that benefit consumers through targeted regulatory reform. More than ever we need competitive, efficient markets to keep the cost of energy supply as low as possible.

ENERGY MARKETS ARE EVOLVING OVER TIME



EYES ON THE FUTURE

Business activity
How is energy use changing?

Financial markets
How are global markets affecting financing costs?

Consumer choices
How much power do you use and when?

Technology
Are you using power smartly?

HOW WE DELIVERED ON MARKET DEVELOPMENT THIS YEAR

MARKET REVIEWS AND ADVICE PAPERS



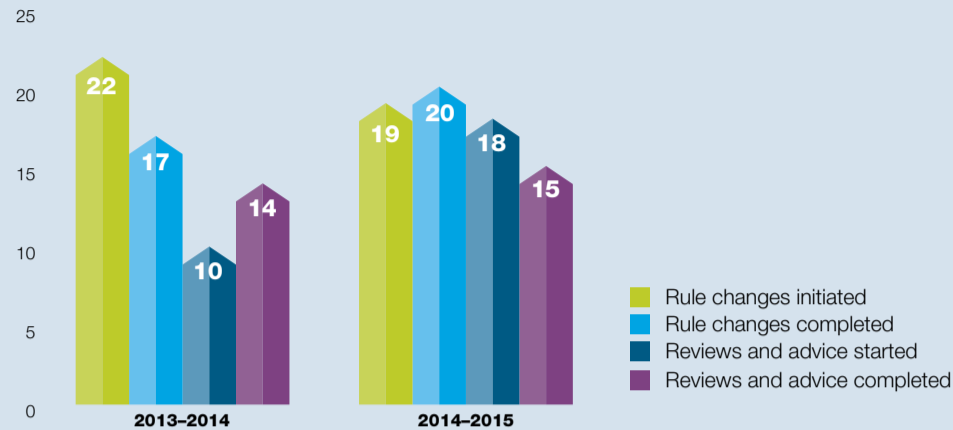
RULE CHANGES



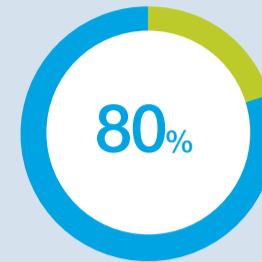
STAFF



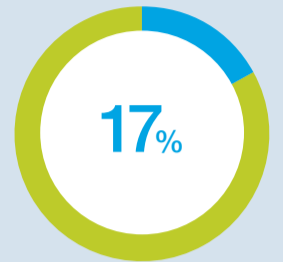
RULE CHANGES, REVIEWS AND ADVICE – STARTED AND COMPLETED



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

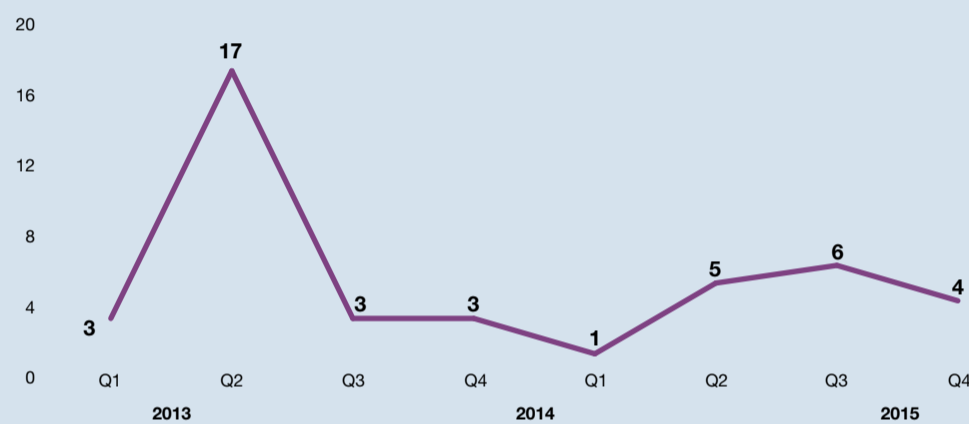


of rule changes completed without extension after initiation



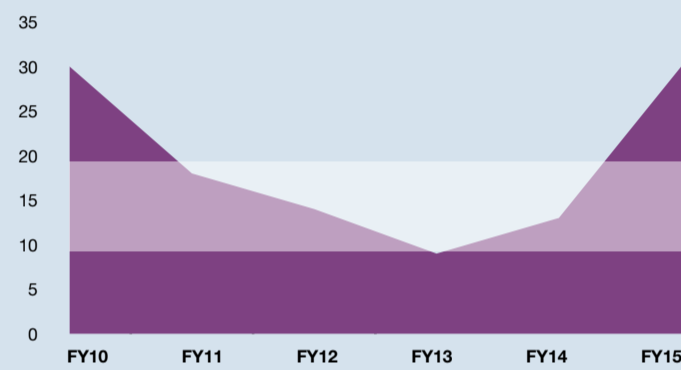
of rule changes initiated within four months

NEW RULE REQUESTS BY QUARTER 2013-2014 AND 2014-2015

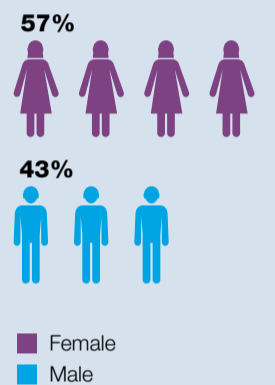


STAFF TURNOVER

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



SENIOR MANAGEMENT TEAM BY GENDER



OUR VALUES

TO HELP US SHAPE THE AEMC'S INTERNAL PRIORITIES WE LOOK TO THE AEMC'S VISION AND MISSION AS WELL AS THE STRATEGIC DIRECTIONS WE HAVE IDENTIFIED TO SUPPORT OUR WORK TO DELIVER THE MARKET DEVELOPMENT INITIATIVES REQUESTED BY STAKEHOLDERS.

OUR VISION

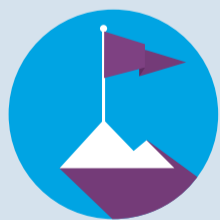
Flexible and resilient markets that benefit consumers.

OUR MISSION

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

OUR VALUES

Leadership. Engagement. Integrity.



LEADERSHIP reflects our desire to lead the debate on key issues of energy market development and engage with governments, consumers and market participants to promote dialogue and understanding. We value different perspectives and welcome meaningful debate on energy market issues.



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.

ENGAGEMENT

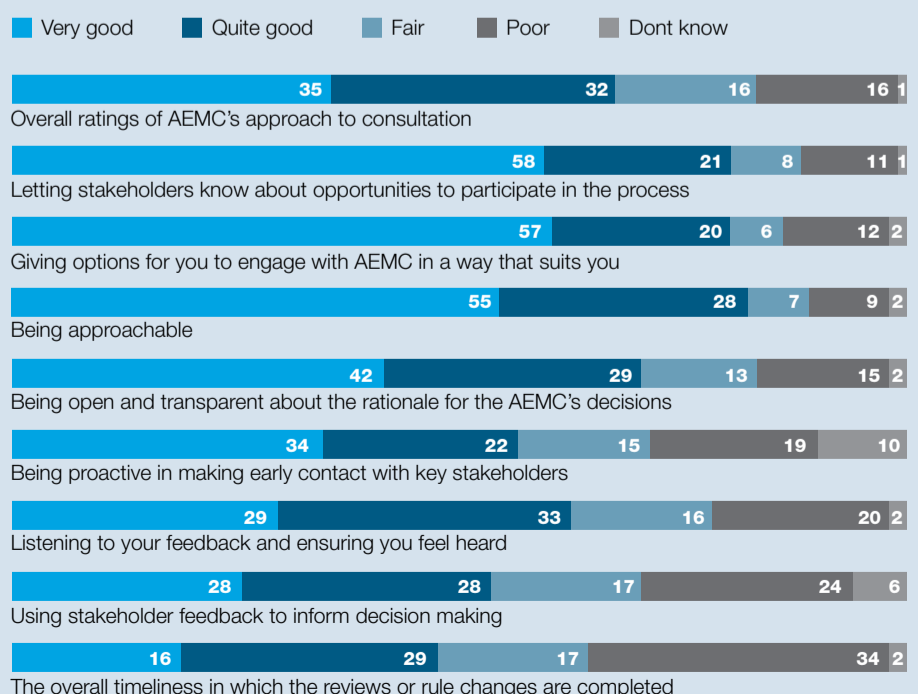
WE NOW ASK STAKEHOLDERS WHO TAKE PART IN CONSIDERATION OF OUR RULES AND REVIEWS FOR FEEDBACK ON THE QUALITY OF OUR CONSULTATION PROCESSES.

The first survey was conducted in June 2015 with 122 responses from people who were actively involved in one of our projects during the year. Research shows stakeholders are generally satisfied with our approach to consultation. But there is room for improvement. Particularly in terms of demonstrating how different views have been taken on board, and the overall timeliness of our work.

These surveys will contribute to our efforts for continual improvement in our organization. They will also build on changes we will be implementing following the completion of the Council of Australian Governments' Review of Governance Arrangements for Australian Energy Markets.

Some early actions in response to the first tranche of survey results include decisions we have made to introduce: phone calls to individual stakeholders or teleconferences with larger groups at the release of draft/final determinations to explain our conclusions and how stakeholder views have been taken into account; information on expected initiation dates to be added to our website for pending, but not yet initiated, rule changes; project leader contact details on our website project pages; and expanded engagement calendars on our website to include more detail on project extensions and projects awaiting initiation.

RATINGS OF AEMC'S CONSULTATION PROCESS BY KEY PERFORMANCE AREA



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