

AEMC

AUSTRALIAN ENERGY MARKET COMMISSION

2008-2009 ANNUAL REPORT



MISSION

The AEMC delivers high quality and impartial energy market rules and advice to policy makers.

VISION

We will be an essential source of market development advice and be regarded as an excellent rule maker.

VALUES

The shared values of the people who are the AEMC provide the framework for the success of our organisation. Success depends upon each of us reflecting these values in the way in which we act, engage and discharge our statutory functions. These values are:

- Integrity;
- Mutual respect;
- Pursuit of excellence.

STRATEGIC OBJECTIVES

We will deliver our Mission and Vision by:

- Delivering the best quality advice, rules and reviews;
- Providing predictable, transparent and effective regulatory processes;
- Maintaining open consultative relationships with industry participants, communities and policy makers;
- Maintaining effective working relationships with regulators and market operators; and
- Proactively supporting the policy development role of the MCE.

To deliver these strategic objectives we must be effective communicators with expert people and professional business management systems.

ENQUIRIES

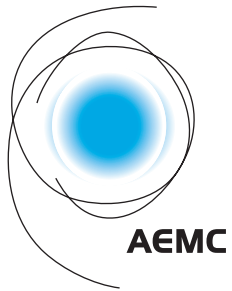
Mr Steven Graham Chief Executive

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Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000

20 November 2009

The Hon Patrick Conlon
Minister for Energy
GPO Box 2969
Adelaide SA 5001

Dear Minister

Australian Energy Market Commission Annual Report 2008-2009

I am pleased to present the Australian Energy Market Commission 2008-2009 Annual Report.

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

Yours Sincerely

A handwritten signature in black ink, appearing to read "John Tamblyn", written in a cursive style.

John Tamblyn
CHAIRMAN

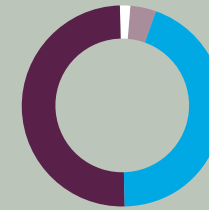
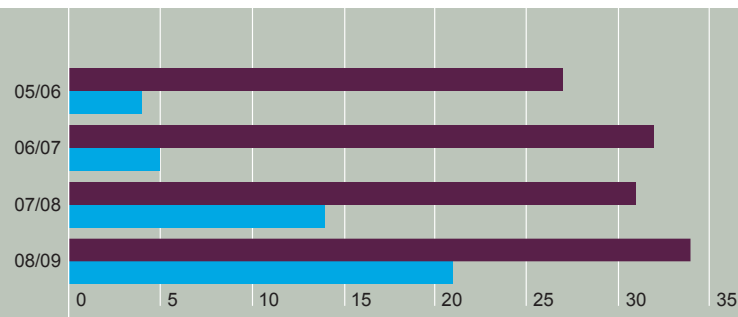
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WORK VOLUME 2008-2009

All projects undertaken by the AEMC and its Reliability Panel (includes all projects completed this year and those continued forward)

- Rules
- Reviews

ACTUAL EXPENSES

- Employee benefit
- Supplies and services
- Grants and subsidies
- Depreciation and amortisation expenses

OVERVIEW

The Australian Energy Market Commission (AEMC) has two principal functions in relation to national energy markets. Rule-making involves reviewing and assessing proposed changes to the National Electricity Rules and National Gas Rules. Reviews arise from monitoring energy markets and identifying issues or problems with existing arrangements as they emerge. The AEMC advises the Ministerial Council on Energy (MCE) on how best to develop energy markets over time. We actively consider market development when we consider rule change proposals and reviews.

RULES

34 rule change projects were undertaken this year

- 26 rules were made by the AEMC amending the National Electricity Rules
- 3 determinations to not proceed with electricity rule changes
- 5 electricity rule change proposals continued into 2009-2010

REVIEWS

9 market reviews were undertaken by the AEMC

- 3 completed
- 6 continued into 2009-2010

EXPERT PANELS

12 market reviews were undertaken by the Reliability Panel

- 8 completed
- 3 continued into 2009-2010
- 1 review was deferred (Guidelines for Return to a Secure Operating State)

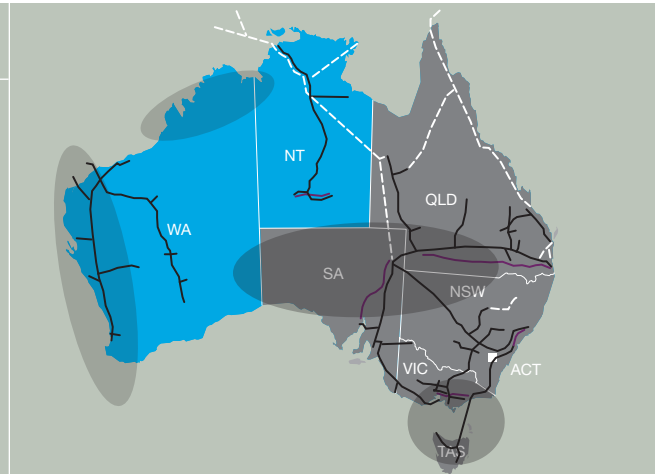
FINANCIAL

- Costs below budget
- \$3.3 million funding holiday for the funding jurisdictions
- Lower interest rates impact investment income

Funding for the AEMC was provided by each of the States and Territories on a proportionate basis.

KEY

- Existing natural gas pipelines
- - - Proposed natural gas pipelines
- Liquid pipelines
- Major natural gas fields
- NEM National Electricity Market



NATURAL GAS MARKETS



NATIONAL ELECTRICITY MARKET

OUR ROLE

Responsibilities

The AEMC was established in July 2005 and the Ministerial Council on Energy is progressively implementing the full range of functions intended for us. On establishment we were responsible for rule making in regard to electricity wholesale and transmission regulation in the National Electricity Market (NEM). We were also responsible for market development and providing advice to the MCE in relation to the NEM.

In January 2008 our role expanded to include the power to make rules in relation to economic regulation of electricity distribution network services. On 1 July 2008 our role expanded again to include the economic regulation of gas transmission and distribution services; access to natural gas pipeline services; and other elements of broader natural gas markets. This expanded again on 1 July 2009 in relation to certain aspects of gas retail market functions.

ORGANISATIONAL STRUCTURE

At 30 June 2009, the AEMC was led by three Commissioners and employed 49 staff.

GOVERNANCE

The AEMC is an independent, national body responsible to the Council of Australian Governments (COAG) through its MCE for the performance of its functions. The AEMC was established in 2005 under the Australian Energy Market Commission Establishment Act 2004.

Retail

The National Electricity Rules and National Gas Rules do not concern retail regulation. The MCE has directed the AEMC to review the effectiveness of retail competition in electricity and gas markets in certain states. Retail price control will be retained by states and territories unless they choose to transfer such arrangements to the AEMC and the Australian Energy Regulator (AER).

Reliability Panel

The AEMC is required under the National Electricity Law to form the Reliability Panel, which is chaired by a member of the Commission. The Reliability Panel monitors, reviews and reports on the safety, security and reliability of the national electricity system.

Consumer Advocacy Panel

The Consumer Advocacy Panel (CAP) allocates grant funding in response to applications by individuals and organisations representing energy consumers. It supports consumer advocacy in policy and regulatory decision-

making in national electricity and natural gas markets or on issues of national significance. The CAP also initiates research projects for the benefit of consumers of natural gas and electricity.

The AEMC provides administrative and back office support to the CAP, but does not direct the CAP in the performance of its functions. The CAP's annual report is provided as an appendix to this report.

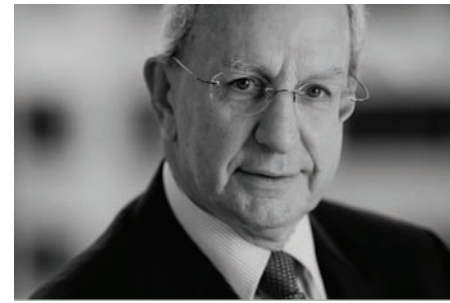
OUR GEOGRAPHICAL SCOPE

Natural Gas Markets

Participating jurisdictions under the National Gas Law are South Australia, the Commonwealth, New South Wales, Victoria, Queensland, Tasmania, the Australian Capital Territory and Northern Territory. On 1 September 2009 sections 1 and 2 of the National Gas Access (WA) Act 2009 commenced operation. Once the remainder of the Act commences operation, Western Australia will become a participating jurisdiction to the extent set out in the Act.

National Electricity Market

The National Electricity Market is the wholesale market for electricity supply in the states of Queensland, New South Wales, Victoria, Tasmania, South Australia and the Australian Capital Territory.



JOHN TAMBLIN
Chairman

CHAIRMAN'S REPORT

In 2008-2009, Australia's energy markets were exposed to challenging natural and economic conditions. They also faced the prospect of major change as a result of policy responses to climate change. Our domestic energy markets became more exposed to global energy market conditions and those influences are likely to increase with expanding export opportunities for Australia's energy resources.

RIISING TO THE CHALLENGE OF CHANGING ENERGY MARKET CONDITIONS

Changing economic and policy influences on the energy markets had a direct impact on the AEMC's 2008-2009 work program and will be a continuing influence on the scope and nature of our work in the future.

Australia's energy markets are dynamic and evolving. Their frameworks require the flexibility and resilience to adapt to changing conditions while continuing to deliver efficient and reliable energy services to the community. Our competitive electricity and gas markets, supported by efficient

economic regulation of monopoly network services, have performed well in these terms since the market reforms of the 1990s. While that effective performance can be expected to continue, ongoing review and refinement of our energy market frameworks will be necessary to ensure that our energy markets remain effective in responding to the future economic and policy challenges that are in prospect.

INTEGRATING AND REFORMING OUR ENERGY MARKET ARRANGEMENTS

The AEMC is responsible for supporting the process of review and reform of our energy

market frameworks through its rule making, review and market development roles. With the acquisition of responsibility for gas market development and rule making in July 2008, we are now able to adopt a more integrated approach to energy market issues which recognises the increasing interdependence between the gas and electricity markets. However, in 2008-2009 the principal focus of our work continued to be on the National Electricity Market (NEM).

During the year our work program gave greater emphasis to our market development and policy advising roles than in previous years. In 2008-2009 the AEMC

completed or substantially progressed a significant number of market reviews on key elements of the market frameworks. The Review of Energy Market Frameworks in light of Climate Change Policies, in particular, required a comprehensive examination of the electricity and gas market arrangements from the perspective of their resilience to the future impacts of climate change policies. The ongoing review of NEM security and reliability arrangements in the light of extreme weather events is examining the effectiveness of the market frameworks in terms of their capacity to maintain the

CHAIRMAN'S REPORT CONTINUED

security and reliability of future power supplies should Australia experience more frequent extreme weather events in the coming years.

STRENGTHENING MARKET CAPACITY AND PERFORMANCE

During 2008-2009 the AEMC's work program included a number of other significant reviews initiated by the Ministerial Council on Energy or the AEMC which involve further significant refinements to the electricity market arrangements. For example, the following reviews completed or ongoing during the year will in combination result in further strengthening of the capacity of the electricity market to respond efficiently and reliably to changing market conditions and policy settings.

- Related reviews towards the establishment of a National

Transmission Planner (under the auspices of the Australian Energy Market Operator); a national framework for transmission reliability standards; and a national approach for the planning and expansion of distribution networks.

- The Reliability Panel review of NEM reliability standards and settings, led to AEMC approval of a rule change to increase the Market Price Cap (MPC) to \$12,500/MWh and to require future biennial reviews of the reliability standards and settings including the MPC.
- Reviews are also proceeding into the use of total factor productivity for the determination of regulated prices and revenues; the role of hedging contracts in the NEM prudential framework; and improved opportunities for demand side participation in the NEM.

- The review into the effectiveness of competition in South Australia's small customer energy retail market provided advice on options for removing retail price regulations on the basis of our finding that competition was effective. The MCE has also agreed to the AEMC conducting reviews of the effectiveness of energy retail competition in the ACT, NSW and Queensland over the period 2010 to 2012.

A FORWARD-LOOKING MARKET FOCUS

To efficiently accommodate the far reaching transformation of our energy markets that is now in prospect, there will be a need for ongoing review and where necessary reform of our energy market frameworks. The AEMC is therefore establishing a forward-looking capacity to identify energy market developments and to

assess their implications for energy market frameworks and settings. Early consultation with energy market participants, institutions and policy advisers on emerging energy market stresses and challenges and the options for responding to them will inform the development of the future energy policy agenda and facilitate a forward-looking approach to the AEMC's market development role.

COMMUNICATIONS WITH OUR STAKEHOLDERS AND PEERS

The AEMC continued to contribute to domestic and international conferences and forums on energy market reform and development. During the year, the Commission presented papers at the annual conference of the National Association of Regulatory Utility Commissioners of the United States and at the World Forum on Energy Regulation

During the year our work program gave greater emphasis to our market development and policy advising roles than in previous years. The Review of Energy Market Frameworks in light of Climate Change Policies, in particular, required a comprehensive examination of the electricity and gas market arrangements from the perspective of their resilience to the future impacts of climate change policies. The ongoing review of NEM security and reliability arrangements in the light of extreme weather events is examining the effectiveness of the market frameworks in terms of their capacity to maintain the security and reliability of future power supplies should Australia experience more frequent extreme weather events in the coming years.

CHAIRMAN'S REPORT CONTINUED

in Athens. Commissioners and staff also made presentations at energy industry and regulation conferences during the year and met with a number of overseas delegations.

We also consulted extensively with stakeholders in delivering our 2008-2009 work program. Our work benefited enormously from many comprehensive written submissions as well as discussions at public forums, round-table meetings and workshops. Stakeholder participation in our review and rule change processes continues to be an essential means of identifying issues, testing analysis and reasoning, and ensuring that proposals for change are proportionate and feasible.

ACKNOWLEDGEMENTS

2008-2009 also saw further changes to the membership of the Commission, with the

appointment of John Ryan as acting Commissioner to replace Liza Carver whose term ended in August 2008. John's term ends in October 2009 having served as a Commissioner for a period of 14 months. I want to thank John for his outstanding contribution to our work and to the AEMC as an organisation and for the advice and support he gave me during that time. Neville Henderson has been appointed to the Commissioner position vacated by John Ryan and he will take up his appointment in October 2009. Neville has wide expertise in many aspects of energy policy and energy market and power system operation. We look forward to his contribution to our work.

Finally, I want to express my appreciation to Commissioner Ian Woodward, to Steven Graham our Chief Executive and the managers and staff of the AEMC for the

very substantial contribution they continue to make to the quality of our work and the effectiveness of our organisation and for the advice and support they continue to give me. Thank you all for your professionalism and commitment to the work of the AEMC and the continuing task of developing Australia's energy markets.

JOHN TAMBLYN
Chairman

The AEMC is establishing a forward-looking capacity to identify energy market developments and to assess their implications for energy market frameworks and settings. Early consultation on emerging stresses will inform the development of the future energy policy agenda.



STEVEN GRAHAM
Chief Executive

CHIEF EXECUTIVE'S REPORT

This year the challenges of future investment requirements to service customers, and the influence of externalities such as climate change policy highlighted the significant role of market institutions in ensuring the continued effectiveness of the national energy market frameworks to the delivery of efficient and reliable energy at sustainable cost.

BUSINESS PERFORMANCE

The AEMC made substantial contributions to the continuing development of the national electricity and natural gas markets operations and governance through its rule change and review projects. Most of the work program has continued to be focused on the national electricity market.

Review projects in particular covered a very broad spectrum of the market framework including retail competition, demand side participation, network planning and operation and financial aspects of the market. Rule change work remains an important part of our ongoing role however the

significance of review work and its contribution to policy development in both markets is increasing.

The quality of the work completed and the costs incurred in completing review and rule making projects reflect the benefits of continuing and prior year investment in:

- recruiting and developing a professional, highly competent staff team;
- developing systems and process to support efficient operations; and
- improving the level and quality of engagement with stakeholders.

Confidence in the capability of the organisation has been reflected in the level of dialogue with stakeholders on prevailing market issues outside of the statutory work programme, as well as continued and growing requests from the Ministerial Council on Energy to support its work.

STAKEHOLDER SURVEYS

Towards the end of the year we engaged two professional research companies to conduct surveys of our stakeholders, firstly through a face to face interview with key senior managers and officials and secondly through an online questionnaire circulated to the

broad stakeholder community. Survey results indicated the investment made to improve the quality of our reports; the increased accessibility of Commissioners and management; and engagement by the organisation with stakeholders and their issues; has had positive results. Between 31 and 49 per cent of respondents (depending on the indicator) indicated they had observed improvements in these indicators over the last twelve months. The level of satisfaction with the organisation was generally rated around the "good" level. As would be expected, there are opportunities to improve in some areas.

OPERATIONAL IMPROVEMENTS

We have an ongoing focus on improvement across all of our operations. Benefits delivered from this focus during the year included:

- Enhanced effectiveness of the consultation process through the implementation of initiatives such as the release of a consultation paper at the time of initiating a rule change process and the use of working parties and informal discussions with interested parties during reviews and rule changes.
- Better information to stakeholders on the timeframe for review and rule change projects through refinement of project planning

CHIEF EXECUTIVE'S REPORT CONTINUED

and management including risk assessment and stakeholder analysis.

- Improved efficiency resulting in reduced operating costs which substantially contributed to the return of \$3.3 million in funding to the funding jurisdictions.
- Enhanced provision of information for the management of the organisation reduced operational risk and improved the efficiency of corporate support processes by implementing an integrated finance, project costing, human resource and procurement system.
- Improved stakeholder access to information and AEMC processes by implementing a new internet site that enables electronic lodgement of rule changes and submissions, provides searchable record of rule changes and reviews and

enables stakeholders to manage their contact details online.

- Minimisation of the overhead costs of administering Consumer Advocacy Panel processes by implementing separate, but common, processes and systems to those used by the AEMC.

FOCUS ON THE FUTURE

In a number of these areas there is continuing refinement required to maximise ongoing benefits. Opportunities to be pursued in the coming year include the following:

- being more proactively engaged in the identification of future trends and issues so as to initiate timely responses to market development needs;
- seeking to provide better ways of assisting stakeholders to identify the substance of issues at an early stage of the process, support engagement in a timely

manner and avoid delays to the decision making process. This is in response to stakeholder indications that the volume and complexity of matters out for consultation by the various bodies working on energy market reform provides engagement challenges;

- implementing a searchable version of the national electricity and national gas rules on the AEMC website that can be downloaded in multiple file formats; and
- increasing our web based services for stakeholder engagement with the AEMC.

Having built the capable and committed AEMC team we are able to focus more on future challenges to the market and undertake self initiated reviews in areas relating to prudential requirements in the National

Australia's competitive wholesale energy markets in electricity and natural gas are entering their most challenging phase in recent history. Generation and network investment is required to service growing demand to respond to climate change policy initiatives. Network investment is also required to replace aging assets and service new forms of generation in locations away from existing clusters of generation. Initiatives to maintain security and reliability of supply will result in consumers being incentivised to modify the pattern of their energy consumption.

Electricity Market (Futures Offset Review) and network regulation (Total Factor Productivity Review). Looking to the future, monitoring the effectiveness of recent reforms to network governance and ensuring network investment and operation incentives remain applicable to the demands placed on the market by climate change policy, technology developments and other market externalities over the next few years is an area of focus for the AEMC.

Economic and policy influences on energy market frameworks will intensify over coming years. Initiatives such as energy efficiency, smart networks and meters, together with the finalisation and application of climate change policy and the impact of renewable energy targets will sharpen our focus on reliability, demand side participation, national

network standards and the implementation of national retail frameworks. These are areas the AEMC will monitor closely as we direct our review work program over the next two years.

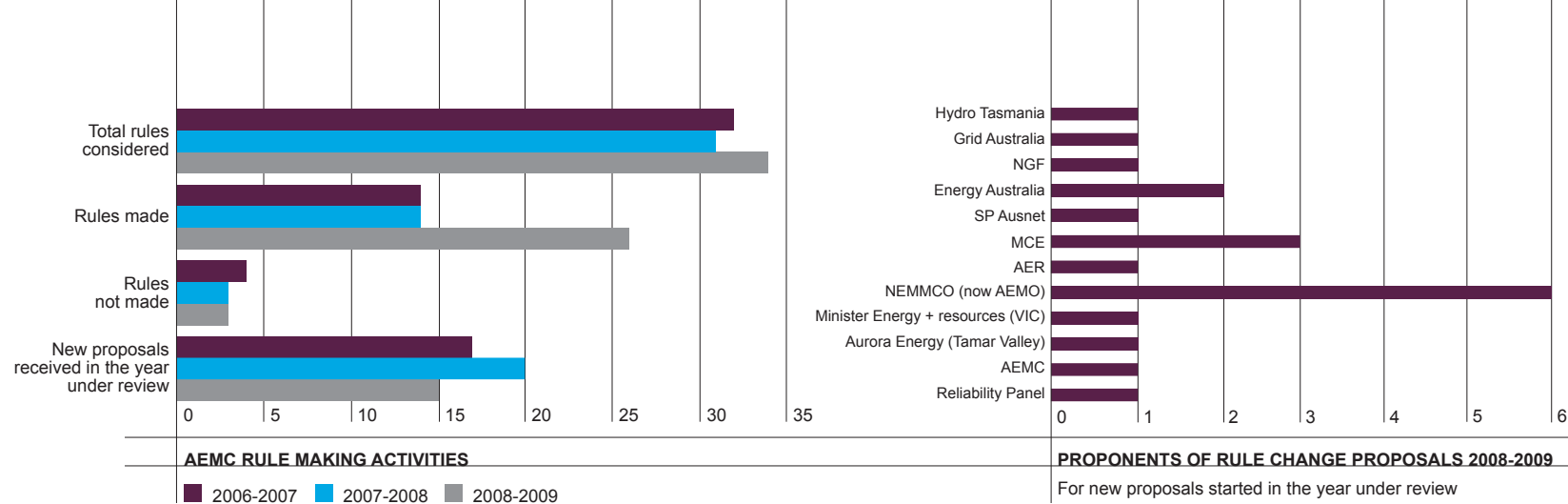
I believe the AEMC is well placed to respond to the market development opportunities that will arise from the impacts on the national energy markets of growing demand, national and international policy initiatives and changing consumer expectations.

STEVEN GRAHAM
Chief Executive

OUR ROLE IN THE ENERGY MARKET

The AEMC has a unique role in relation to energy markets. We provide a public platform for all stakeholders to debate the detailed rules affecting the operation of the energy market. We also raise energy policy matters for consideration by the wider market. The effectiveness of our forums is enhanced by the right of any person to propose a rule change. Additionally, we can initiate our own reviews to investigate matters that we consider are important to the function or future development of the market.

The AEMC's rule change and market review roles are at the core of our work. In carrying out these roles we have established and applied clear, transparent and independent mechanisms for market frameworks to respond to changing market circumstances. This is a particular strength of the energy market's design as it ensures that emerging market concerns can be addressed quickly and proactively. Having such an open, transparent and independent system for changing the market framework provides investors with certainty about the market arrangements, which encourages ongoing investment.



RULE MAKING

During the 2008-2009 year, the AEMC considered a total of 34 rule change proposals bearing on the National Electricity Market. In carrying out its rule making responsibilities, the AEMC made 26 new electricity rules and determined to not make three rules as proposed by proponents. Five rule change proposals started in the year under review were continued into 2009-2010. Fifteen new requests were received during the year under review.

The consolidated version of the National Electricity Market Rules at 30 June 2009 was Version 29.

The initial National Gas Rules (NGR) were made by the South Australia Minister and commenced operation on 1 July 2008. We did not receive any rule change requests in relation to the NGR during the year.

THE AEMC'S WHOLE OF MARKET APPROACH

The market objectives are the principal criteria for evaluating rule changes. Under section 88 of the National Electricity Law and section 291 of the National Gas Law, the AEMC may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the respective statutory objective. We may give weight to any aspects of the objectives as we consider

appropriate in the circumstances (having regard to any relevant MCE statement of policy principles).

The National Electricity Objective is: "to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system."

The National Gas Objective is framed in similar terms: "The objective of this Law (the National Gas Law) is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."

At the same time we are mindful of taking a whole-of-market approach. We consider every rule change proposal in the context of any wider implications on the operation of the market. Our whole-of-market approach resulted in the initiation by the AEMC of two reviews in the year under review, in response to the

total factor productivity rule change and the futures offset rule change. In both cases the AEMC initiated its own reviews in order to more fully investigate the wider market implications of the proposed regulatory changes. In response to the National Electricity Amendment (Total Factor Productivity for Distribution Network Regulation) Rule 2008, we commenced the Review into the Use of Total Factor Productivity for the Determination of Prices and Revenue. The Review into the Role of Hedging Contracts in the Existing NEM Prudential Framework was commenced following our assessment of the Futures Offset Arrangements rule change.

The law provides the flexibility for the Commission to consolidate more than one proposal (section 93 of the NEL and section 300 of the NGL) and propose alternative solutions to the underlying problem subject to a rule proposal (section 91A of the NEL and section 296 of the NGL). This allows the Commission to directly address market problems when they are raised through rule change proposals without being limited to the solutions put forward by rule change proponents.

Decisions not to proceed

The Commission may make a decision not to proceed with a rule change request under certain circumstances,

RULE MAKING CONTINUED

for example, if the subject matter of the request appears to be a matter in which the AEMC may not make a rule. This year there were no decisions not to proceed.

Time taken to make rule determinations

The timeframe within which rule change proposals are undertaken is dictated by statutory timeframe obligations under the National Electricity Law (NEL). For example, the closing date for submissions after a section 95 of the NEL notice of a rule change request must not be less than four weeks from the date of the notice and the draft rule determination must be published within 10 weeks after the submission closing date. The AEMC does, however, have some flexibility to manage its work programme by postponing the commencement of a rule change or extending the timeframe for its completion if there are particularly complicated issues involved.

The statutory rule making process timeframe may also vary depending on the rule making process followed. There are two exceptions to the standard rule making process under section 95 of the NEL; the expedited rule making process under section 95 and 96 of the NEL; and the fast tracked rule making process under section 95 and 96A of the NEL. A person may only request an expedited rule making process if it is a request for a

non-controversial rule or an urgent rule as those terms are defined in the NEL and National Gas Law (NGL). A person may only request a fast tracked rule making process where there has been previous consultation by a market regulatory body or an AEMC review. The “standard timeframe” under law for a normal rule change is 130 days.

In the year under review the AEMC has averaged 120 days for consideration of completed rule change proposals. Twelve rule change requests were expedited, two were fast tracked and 12 of the total 34 rule change proposals were extended (s107) and (s107A) at least once during the review period.

The average number of days taken to finalise normal rule change proposals (excluding expedited and fast tracked proposals) was 198 days. The average number of days spent on expedited proposals was 29 and the number of days spent on fast tracked proposals was 76.

Twelve of the 34 rule change proposals considered in 2008-2009 were extended at least once for a range of reasons including the need to properly accommodate stakeholder concerns and to enable the comprehensive consideration of complicated issues raised during public consultation.

Extensions to allow proper accommodation of stakeholder concerns predominately arise due to the complexity of issues raised, late submissions and the prioritisation of projects. The AEMC is also required to publish an extension notice where a rule change is complex and is determined on receipt to require more time than the standard statutory timeframe.

As part of the AEMC’s continual improvement approach, the rule change process followed by the organisation has been modified to include an issues paper with the initial publication of a rule change proposal. This change was implemented in recognition of the fact that the longest consultation period was the first consultation and the overall time to complete rule changes could be reduced if substantial matters were raised in the first consideration period. The preliminary analysis required to prepare the issues paper also allows more informed project planning that reflects the level of complexity of the specific rule change.

RULES MADE BY THE AEMC

The following tables summarise the Rules made by the AEMC in 2008-2009.

Rules Made

NAME	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/ IMPACT
Minor Change to Technical Requirement for Generators	Rule 2008 No.7 (version 22)	7 Aug 08	23 Oct 08	NEMMCO now the Australian Energy Market Operator (AEMO)	Expedited	Rectifies two minor drafting errors in clause S5.2.5.3(c)(6) of the National Electricity Rules (Rules).
Reclassification of Contingency Events	Rule 2008 No.8 (version 22)	2 Oct 08	23 Oct 08	Australian Energy Regulator (AER)	Normal	Requires AEMO to develop and apply pre-determined risk assessment criteria when considering whether to re-classify a contingency event and to provide market participants with improved information.
Regulatory Test Thresholds and Information Disclosure on Network Replacements	Rule 2008 No.9 (version 22)	23 Oct 08	23 Oct 08	Grid Australia	Normal	Increases the current Regulatory Test thresholds, indexes monetary thresholds to movements in the Producer Price Index; requires transmission network service providers to disclose certain information on all proposed replacement network assets.
Performance Standard Compliance of Generators	Rule 2008 No.10 (version 22)	23 Oct 08	23 Oct 08	National Generators Forum (NGF)	Normal	Establishes a compliance framework for generators' performance standards.
Easement Land Tax Pass Through	Rule 2008 No.11 (version 24)	27 Nov 08	1 Jan 09	SP Ausnet	Expedited	Enables the pass through by SP Ausnet to its customers of the precise amount of easement land tax SP Ausnet incurs in Victoria.
Setting VoLL Following the Shedding of Interruptible Load	Rule 2008 No.12 (version 23)	20 Nov 08	20 Nov 08	Australian Energy Regulator (AER)	Normal	Provides focus for AEMO's efforts to return the power system to a secure operating state and restoring load after incidents of automatic load shedding. Improves transparency and predictability of how the market is priced, by reducing the scope for (potentially inconsistent) discretionary intervention.
Clarification of Market Information Requirements for Market Ancillary Services	Rule 2008 No.13 (version 24)	27 Nov 08	1 Jan 09	NEMMCO now the Australian Energy Market Operator (AEMO)	Expedited	Requires AEMO to provide daily forecasts of the requirements for each type of market ancillary service instead of weekly.
Preservation of Prudential Margin Through Call Notices	Rule 2008 No.14 (version 24)	27 Nov 08	1 Jan 09	NEMMCO now the Australian Energy Market Operator (AEMO)	Expedited	Enhances operation of the NEM by rectifying an anomaly in the market's prudential arrangements.

RULES MADE BY THE AEMC

NAME	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/ IMPACT
Registration changes for Traders, Reallocators, and Transfer of Registration	Rule 2008 No.15 (version 24)	4 Dec 08	1 Jan 09	NEMMCO now the Australian Energy Market Operator (AEMO)	Expedited	Adds more explicit eligibility criteria for participants seeking to register as a trader in the market; adds more explicit eligibility criteria for participants seeking to register as a reallocator in the market; introduces a process allowing transfer of registration from a registered participant to another person.
Queensland Generator Technical Performance Standards Derogations	Rule 2008 No.16 (version 24)	11 Dec 08	1 Jan 09	Queensland Government	Normal	Removes from the Rules most of the jurisdictional derogations on technical requirements which apply to some generating units in Queensland. Ensures that these generating units comply with the (generally) more onerous technical requirements set out in clause S5.2.5 of the Rules rather than the (generally) less onerous technical requirements set out in the derogations.
Compensation Arrangements Under Administered Pricing	Rule 2008 No.17 (version 24)	18 Dec 08	1 Jan 09	EnergyAustralia	Normal	Amends the process for how the AEMC assesses claims for compensation following application of an administered price cap, market price cap, market floor price or administered floor price. Improves regulatory certainty and provides for compensation claims to be assessed in a rigorous and consultative manner. The scope for compensation has a potentially important role in maintaining reliable supplies during these types of market events.
Ramp Rates, Market Ancillary Service Offers, and Dispatch Inflexibility	Rule 2009 No.1 (version 27)	15 Jan 09	31 Mar 09	Australian Energy Regulator (AER)	Normal	Requires that market participants provide technical parameters in relation to ramp rates, market ancillary service offers and dispatch inflexibility that reflect technical capability of their plant allowing AEMO to manage system security issues more effectively.
Victorian Jurisdictional Derogation (Advanced Metering Infrastructure Roll Out)	Rule 2009 No.2 (version 30)	29 Jan 09	1 Jul 09	Minister for Energy and Resources (Victoria)	Normal	Establishes the local distribution businesses in Victoria as exclusive responsible parties for small customer metrology and for the roll-out of advanced metering infrastructure.
Cost Allocation Arrangements for Transmission Services	Rule 2009 No.3 (version 25)	29 Jan 09	13 Feb 09	National Generators Forum (NGF)	Normal	Clarifies the meaning, workability and implementation of certain grandfathering provisions associated with the commencement of Chapter 6A of the Rules
Confidentiality Arrangements in Respect of Information Required for Power System Studies	Rule 2009 No.4 (version 26)	19 Feb 09	27 Feb 09	National Generators Forum (NGF)	Normal	Clarifies information that may be disclosed by AEMO to Registered Participants and the software applications that the information be encoded in, so that the confidentiality of commercially sensitive information is maintained; clarifies information that may be disclosed by a Network Service Provider (NSP) to another NSP so that it can fulfil its Rules obligations while maintaining confidentiality of commercially sensitive information.

RULES MADE BY THE AEMC

NAME	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/ IMPACT
Removal of Performance Standard for Identifying Manifestly Incorrect Inputs	Rule 2009 No.5 (version 26)	26 Feb 09	27 Feb 09	NEMMCO now the Australian Energy Market Operator (AEMO)	Expedited	Removes from the Rules an unachievable performance standard for identifying dispatch intervals that have been affected by manifestly incorrect inputs.
Weighted Average Cost of Capital (WACC) Reviews – Extension of Time	Rule 2009 No.6 (version 27)	26 Mar 09	31 Mar 09	Australian Energy Regulator (AER)	Expedited	Provides the AER with a one-off extension of one month to complete its first WACC Review for electricity transmission and distribution network service providers by 1 May 09 rather than 31 Mar 09.
Minor Changes 2009	Rule 2009 No.7 (version 27)	26 Mar 09	31 Mar 09	Australian Energy Market Commission (AEMC)	Expedited	Corrects formatting and numbering anomalies in the Rules and removes expired participant derogations.
Transmission Network Prices Publication Date	Rule 2009 No.8 (version 27)	26 Mar 09	31 Mar 09	EnergyAustralia	Normal	EnergyAustralia proposed to change the publication date of transmission network prices from 15 May to 15 Mar each year. The Commission decided not to make this rule. An alternative rule was suggested by TransGrid to permit transmission network service providers to use the draft maximum allowed revenue (MAR) for transmission prices setting if the final MAR is not available in time. The Commission decided to make this alternative as a more preferable rule.
National Transmission Statement	Rule 2009 No.9 (version 28)	2 Apr 09	16 Apr 09	Ministerial Council on Energy (MCE)	Expedited	Facilitates the effective and efficient transition between the last Annual National Transmission Statement (ANTS) and first National Transmission Network Development Plan (NTNDP) and enables the processes that support their development. It promotes a more strategic and efficient approach to electricity transmission network planning which is in the long-term interests of consumers.
Negative Settlements Residue Recovery, Extension of Sunset	Rule 2009 No.10 (version 28)	16 Apr 09	16 Apr 09	NEMMCO now the Australian Energy Market Operator (AEMO)	Expedited	Extends the sunset date for the National Electricity Amendment (Negative Inter-Regional Settlements Residue) Rule 2006 by one year to 30 June 2010. This avoids inefficiencies that would arise from reverting to the old recovery mechanism of auction fees before the Commission makes a determination on whether to make the MCE's proposed National Electricity Amendment (Negative Inter-regional Settlement Residue Amounts) Rule 2009. This promotes clarity, certainty and a smooth transition between current and any alternative inter-regional settlement residue recovery method.

RULES MADE BY THE AEMC

NAME	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT/ IMPACT
Demand Management	Rule 2009 No.11 (version 30)	23 Apr 09	1 Jul 09	Total Environment Centre (TEC)	Normal	Requires transmission businesses to provide better information in their Annual Planning Reports about forecast constraints and their consideration of appropriate non-network alternatives in their revenue proposals. Requires the AER, when assessing revenue proposals, to take account of appropriate demand management activities. These changes seek to facilitate demand management in the NEM by improving transparency and consistency in network planning and development.
The AETV Participant Derogation to Allow Commissioning of a New Power Station	Rule 2009 No.12 Version 29	28 May 09	28 May 09	Aurora Energy (Tamar Valley) Pty Ltd (AETV)	Expedited	Modifies frequency ranges applicable to AETV under clause S5.2.5.3(c) of the Rules to those frequency ranges that will apply in Tasmania once new Tasmanian frequency operation standards commence (as modified by the Reliability Panel on 18 December 2008).
NEM Reliability Settings: VoLL, CPT and Future Reliability Review	Rule 2009 No.13 Version 29	28 May 09	28 May 09	AEMC Reliability Panel	Fast Track	Renames the term "Value of Lost Load" (VoLL) to the "Market Price Cap" (MPC), and increases its value to \$12 500/MWh from 1 July 2010. It also increases the Cumulative Price Threshold (CPT) to \$187,500 and replaces the annual review of VoLL with an integrated biennial review of the reliability standard and settings. The changes to the levels of MPC and the CPT should promote more efficient investment by allowing wholesale prices that reflect costs of generation associated with restricting the level of Unreserved Energy to that specified by the reliability standard.
EnergyAustralia Participant Derogation Extension (Settlement Residue Auctions)	Rule 2009 No.14 (version 30)	11 Jun 09	1 Jul 09	EnergyAustralia	Expedited	Provides EnergyAustralia with an unambiguous right to participate in Settlement Residue Auctions (SRAs). This will increase the level of competition for SRA units, which will improve the potential for efficient price outcomes from the SRA market, and support greater efficiency in the overall market for financial hedge instruments. This leads to benefits for end users through more efficient energy market prices.
Regulatory Investment Test for Transmission	Rule 2009 No.15 Version 30	25 Jun 09	1 Jul 09	Ministerial Council on Energy (MCE)	Fast Track	Amalgamates the reliability and market benefits limbs of the existing Regulatory Test, provides greater prescription on how market benefits and costs should be assessed and increases and brings forward consultation on transmission investment options. It is likely to optimise the decision making process in relation to transmission planning and improve consistency and transparency across transmission investment assessment.

Decisions not to make a Rule

There were three decisions taken by the AEMC during the year not to make a rule as requested by proponents.

Parameter values, equity beta and gamma

Proponent:	Energy Users Association of Australia (EUAA)
	Decision made 13 November 2008

Futures offset arrangements

Proponent:	Australian Power & Gas, Infratil Energy Australia, Momentum Energy
	Decision made 16 April 2009

Contingency administered price cap following a physical trigger event

Proponent:	National Generators Forum (NGF)
	Decision made 4 June 2009

Rules Under Consideration at 30 June 2009

Five rule change proposals remained under consideration at the close of the 2008-2009 year. All of them were new proposals received during the year.

Total factor productivity for distribution network regulation

Proponent:	Minister for Energy and Resources (Victoria)
Stage at 30 Jun 09:	Activity on Rule suspended at the First round consultation stage to allow completion of broader based Review by the AEMC. The draft rule determination is now due by 1 October 2010 pending the outcome of the review into the possible use of Total Factor Productivity for revenue and pricing determinations for electricity and gas providers.

Arrangements for managing risks associated with transmission network congestion

Proponent:	Ministerial Council on Energy (MCE)
Stage at 30 Jun 09:	Draft Rule Determination

Causer pays for ancillary services to control the Tasmanian frequency

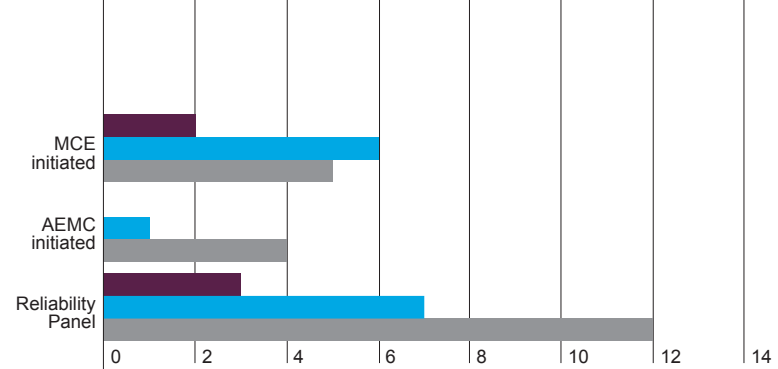
Proponent:	Hydro Tasmania
Stage at 30 Jun 09:	Draft Rule Determination

Confidentiality provisions for network connections

Proponent:	Grid Australia
Stage at 30 Jun 09:	Draft Rule Determination

Bid and offer validation data

Proponent:	NEMMCO now the Australian Energy Market Operator (AEMO)
Stage at 30 Jun 09:	Initiation



MARKET REVIEW ACTIVITIES

(Including reviews completed this year and those continued forward)

■ 2006-2007 ■ 2007-2008 ■ 2008-2009

MARKET REVIEWS

The AEMC conducts reviews in accordance with terms of reference provided by the Ministerial Council on Energy (MCE) or through the initiation of its own reviews as part of its market development role. Three AEMC-initiated reviews were current during 2008-2009 – the Review of Demand Side Participation in the National Electricity Market; the Review into the Use of Total Factor Productivity for the Determination of Prices and Revenues; and the Review into the Role of Hedging Contracts in the Existing NEM Prudential Framework.

During the 2008-2009 year, the AEMC, together with its independent Reliability Panel, undertook 21 market reviews. Reliability Panel reviews are initiated by reference from the AEMC or by the Panel discharging obligations set out in the National Electricity Rules.

These 21 reviews broadly contributed to key themes being pursued by our significant work program, in particular:

- managing the reliability of electricity supply;
- addressing network congestion;
- refining the regulatory arrangements for network planning and investment;
- assessing the effectiveness of retail competition.

The number of reviews being considered has steadily grown since our establishment, particularly since early 2007. At 30 June 2009 the AEMC was considering nine reviews.

Immediately following the close of the year under review on 10 July 2009 the MCE directed the AEMC to continue its reviews of the effectiveness of retail competition in jurisdictions by considering the Australian Capital Territory in 2010, New South Wales 2011, Queensland 2012 and then Tasmania in 2013.

Market Reviews undertaken in 2008-2009

NAME	START DATE	END DATE	STATUS AT 30 JUNE 2009	
MCE Initiated Reviews (MCE requested advice)				
1	National Transmission Planner – Transmission Reliability Standards Review	3 Jul 07	22 Jul 08	Completed
2	Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in South Australia	14 Mar 08	18 Dec 08	Completed
3	Review of the Effectiveness of NEM Security and Reliability Arrangements in Light of Extreme Weather Events	21 May 09	Continuing	Preparation of first interim report
4	Review of the National Framework for Electricity Distribution Network Planning and Expansion	17 Dec 08	Continuing	Preparation of draft report
5	Review of Energy Market Frameworks in light of Climate Change Policies	25 Aug 08	Continuing	2nd interim report final consultation
AEMC Initiated Reviews				
6	Establishment of First Compensation Guidelines	5 Mar 09	30 Jun 09	Completed
7	Review of Demand Side Participation in the NEM	23 Oct 07	Continuing	Preparation of final report

Eamonn Corrigan, Director Eamonn has travelled far in 10 years, professionally and personally. Following his B.A (Hons) in Economics from Cambridge University he worked for the Bank of England, Northern Ireland's Authority for Utility Regulation (Principal Economist) and New Zealand's Commerce Commission (Chief Adviser). Now settled in Australia and recently married, Eamonn is an AEMC Director and runs our Total Factor Productivity (TFP) Review. It's a cutting edge project examining possible applications of TFP based methodology to the determination of energy market prices and revenues. This review is typical of the AEMC work programme, he says – high level, with demanding issues. "I feel part of a team which is responsible for making reform not just implementing reform – very rewarding."



MARKET REVIEWS CONTINUED

NAME	START DATE	END DATE	STATUS AT 30 JUNE 2009	
8	Review into the Role of Hedging Contracts in the Existing NEM Prudential Framework	22 Jan 09	Continuing	Preparation of draft report
9	Review into the Use of Total Factor Productivity for the Determination of Prices and Revenues	21 Nov 08	Continuing	Preparation of stage 1 draft report

Reliability Panel Reviews

10	Reliability Panel Technical Standards Review	14 Feb 08	30 Apr 09	Completed
11	Review of Mainland Frequency Operating Standards during Periods of Supply Scarcity	18 Mar 08	16 Apr 09	Completed
12	VoLL 2009 Review	2 Feb 09	16 Apr 09	Completed
13	NEM Reliability Settings: VoLL, CPT, and Future Reliability Review	16 Sep 08	18 Dec 08	Completed
14	Review of Frequency Operating Standards for Tasmania	18 Mar 08	18 Dec 08	Completed
15	Annual Electricity Market Performance Review (2008)	15 Aug 08	17 Dec 08	Completed
16	Reliability and Emergency Reserve Trader (RERT) Guidelines	26 Jun 08	24 Nov 08	Completed
17	Transmission Reliability Standards Review	17 Aug 07	31 Aug 08	Completed
18	Guidelines for Return to a Secure Operating State	May 07	26 Feb 09	Deferred
19	Review of Reliability Standard and Settings	31 May 09	Continuing	Initiation
20	Review of the Operational Arrangements for the Reliability Standards	30 Mar 09	Continuing	Initiation
21	Template for Generator Compliance Programs	21 Nov 08	Continuing	Preparation of final report

AEMC MARKET REVIEWS COMPLETED IN 2008-2009

Review of competition effectiveness in gas and electricity retail markets – South Australia

Why was the review conducted?

Our review of competition in retail gas and electricity markets was initiated by an agreement of the Council of Australian Governments (COAG) and a direction of the Ministerial Council on Energy (MCE) under the Australian Energy Market Agreement (AEMA, 2 June 2006). The AEMA is a formal COAG agreement to implement key elements of the national energy market reform agenda. It includes an agreement by the Heads of Government that the AEMC will review the effectiveness of retail competition in electricity and gas retail markets in each jurisdiction (except Western Australia) for the purpose of retaining, removing or reintroducing retail price regulation.

Overview

South Australia was the second state jurisdiction to be considered following the completion of the review of Victoria. This review started in December 2007.

Key conclusions

The AEMC found that retail competition for both electricity and gas was effective although competition was relatively more intense in electricity than in gas.

MARKET REVIEWS CONTINUED

Advice to the South Australian Government and MCE on modifying or removing retail energy price regulation arrangements in South Australia was provided on 18 December 2008.

Next Steps

The South Australian Minister for Energy advised the AEMC that the jurisdiction did not accept our recommendations for the removal of price control at this time. The MCE will determine a date for any subsequent review of the effectiveness of competition in the South Australian gas and electricity markets.

[National Transmission Planner – Transmission Reliability Standards Review](#)

Why was the review conducted?

In July 2007, the MCE requested a review into electricity transmission network reliability standards, with a view to developing a consistent national framework for network security and reliability.

Overview

On 17 August 2007, the Commission requested the Reliability Panel to undertake a review of the jurisdictional transmission reliability standards and provide advice to the Commission. The Panel recommended a nationally consistent framework for transmission reliability standards. The Panel provided

its final report to the Commission on 1 September 2008. The Commission then provided its final report to the MCE on 5 November 2008, concluding this review.

Key conclusions

Under that national framework, transmission reliability standards would be set at a jurisdictional level with the option for a jurisdiction to refer standards setting to a national body, and would be economically derived based on a common economic methodology. In its report, the Commission also recommended establishing a national reference standard as a point of information, clarification and contrast and proposed the MCE request the AEMC to develop the national reference standard.

Next steps

The conclusions and recommendations of the Commission are being considered by the MCE for implementation.

[Guidelines for the Determination of Compensation Following the Application of the Administered Price Cap, Market Price Cap, Market Floor Price or Administered Floor Price](#)

Why was the review conducted?

The provisions of the National Electricity Amendment (Compensation Arrangements under Administered

From a period of substantial spare capacity the electricity market is now in a much tighter demand and supply position, and is expected to remain so for the foreseeable future. The tighter demand and supply balance will make the overall energy market system more sensitive to dramatic changes or shocks. Our review work is an important contribution to ensuring the market framework can respond appropriately.

Pricing) Rule 2008 No.17 commenced on 1 January 2009. Clause 3.14.6(c) of this Rule requires the Commission to develop and publish guidelines for the determination of compensation following the application of the administered price cap, market price cap, market floor price or administered floor price (compensation guidelines). The first compensation guidelines were published on 30 June 2009 and commenced on 1 July 2009.

Overview

The compensation guidelines support the operation of clause 3.14.6 of the National Electricity Rules. This clause describes how compensation is to be determined by the Commission if a claim is made by an eligible party following the application of the administered price cap, market price cap, market floor price or administered floor price.

The additional detail provided by the guidelines provides interested parties, including claimants, with greater predictability, consistency and transparency in the calculation of compensation. This leads to robust decision-making by the Commission on any compensation claims.

Meredith Mayes, Senior Advisor With qualifications in economics (M.Comm(Ec) UNSW) Meredith worked first at the Prices Surveillance Authority and then at the Australian Competition & Consumer Commission where she helped develop access arrangements under the former Gas Code. “There simply were no precedents when the Gas Code started - just a blank sheet of paper – so it was a challenge. I enjoy doing the analysis needed to assess proposals while developing an understanding of the businesses involved.” After a time at the Australian Energy Regulator, Meredith made the move 12 months ago to rule making at the AEMC. She sees more similarities than differences in the roles. “The content of the work is different of course, but the core skills are the same. Importantly, the work requires building close working relationships with interested parties to help form decisions,” she says.



MARKET REVIEWS CONTINUED

Key conclusions

The compensation guidelines provide potential claimants with greater certainty as to what costs will be considered for compensation, so they can make an informed decision on whether they should apply for compensation and what information needs to be provided. The transparency and consistency of claims, provided by the guidelines, will also better inform stakeholders, improving the consultation phase of the compensation process.

The Commission considers these guidelines to be practical and informative, yet sufficiently flexible for all participants in the compensation process.

Next Steps

These compensation guidelines are to be applied by an eligible party if a claim for compensation is made following the application of the administered price cap, market price cap, market floor price or administered floor price. The compensation guidelines will be reviewed every three years, or at an earlier time in light of market circumstances.

AEMC REVIEWS CURRENT AT 30 JUNE 2009

Review of Demand-Side Participation in the National Electricity Market

Why is the review being conducted?

The AEMC initiated this review in October 2007. It was the first review to be initiated by the AEMC. Issues identified which led to the initiation of the review included the possibility of sub-optimal investment in alternative demand-side solutions, compared with investments in generation and networks. The removal of any impediments to effective demand-side participation (DSP) may boost market efficiency and promote the National Electricity Objective.

Overview

We are undertaking the review in three stages. The first stage was to review our (then) existing work program from the perspective of DSP, in order to identify if there were incremental improvements that could be made to improve the scope for DSP as part of that work program. We completed the first stage of the review on 16 May 2008. The second stage of the review, which we are currently undertaking, is a more extensive analysis of the existing Rules to establish how, if at all, the Rules materially disadvantage use of efficient DSP.

There were also significant overlaps between this review and other AEMC projects. The most significant of these are a rule change proposal relating to demand management for transmission networks, submitted by the Total Environment Centre (TEC) in November 2007, and the MCE-directed Review of Energy Market Frameworks in light of Climate Change Policies. We sought to align the timetables and our consideration of the DSP Review with the rule change proposal and energy market frameworks review. A final determination on the TEC rule change proposal was made on 23 April 2009 (National Electricity Amendment (Demand Management) Rule 2009 No.11).

Key preliminary findings

We published the draft report of the Review of Demand-Side Participation in the National Electricity Market on 29 April 2009. The key findings were:

- there is potential to strengthen the DSP contribution for unexpected capacity shortfalls;
- under a price cap form of regulation, network businesses have the right financial incentives to find and enter into contracts with DSP providers;
- regulated network businesses have limited financial incentives to innovate on DSP;

As the AEMC approaches the end of its first five years of operation, it is entering a new phase in its evolution – focusing on fulfilling its role to guide the energy market’s development in a cost effective and transparent manner. In addition, it is taking on new and expanded responsibilities for the gas market rules.

MARKET REVIEWS CONTINUED

- incentives on regulated network businesses biases against using operating expenditure; and
- variations across distribution network businesses in how they plan network investment, and how they assess connection applications, are likely to increase costs unnecessarily for DSP.

Next steps

Our final report for the review, setting out recommendations for change, will be sent to the MCE in late 2009.

[Review of Energy Market Frameworks in light of Climate Change Policies](#)

Why is the review being conducted?

At its meeting of 13 June 2008, the Ministerial Council on Energy agreed to direct us to conduct a review of the current energy market frameworks in the NEM states, Western Australia and the Northern Territory in light of climate change policies. The review commenced in August 2008 following receipt of the terms of reference. The review’s purpose was to advise the MCE on framework changes that may be needed to ensure that consumers continue to receive efficient, safe, secure and reliable energy supplies after the introduction of the Carbon Pollution Reduction Scheme (CPRS) and expanded Renewable Energy Target (RET).

Overview

The Australian energy sector is a major emitter of greenhouse gases, with over three quarters of electricity produced by burning coal (56 per cent from black coal, 27 per cent from brown coal and around one eighth from gas generation). The planned introduction of the CPRS will price carbon emissions, introducing significant new costs for electricity generators. The expanded RET is designed to increase the proportion of electricity supplies from renewable sources.

These policies will drive transformational changes in Australia’s energy markets. Where significant challenges are identified, we are developing recommendations for framework change to ensure energy markets continue to deliver against market objectives.

Key preliminary findings

The review’s second interim report (30 June 2009) identified the need for change to existing NEM frameworks in the following key areas:

- regulated retail prices – recommending increased flexibility for retail price regulation;
- connection of new remote generation to energy networks – recommending new approaches to investment; and

- network congestion – recommending more cost-reflective charges for generators.

Next steps

The final advice on this review is to be submitted to the MCE by 30 September 2009.

[Review into the Use of Total Factor Productivity for the Determination of Prices and Revenues](#)

Why is the review being conducted?

The need for this review was identified as a priority by the AEMC following its consideration of initial submissions on the rule change proposal regarding total factor productivity for distribution network regulation, lodged by the Victorian Minister for Energy and Resources on 23 June 2008.

Overview

On 21 November 2008, the AEMC announced that it would conduct a review into the possible application of a total factor productivity (TFP) based methodology in the determination of prices and revenues. This review is seeking to provide advice to the MCE on:

- the circumstances in which an application of a TFP based price setting methodology would contribute to the National Electricity Objective (NEO) and National Gas Objective (NGO);

Lisa Nardi, Senior Advisor Lisa likes to work outside her comfort zone. A secondment to the NSW Department of Environment and Climate Change from her substantive position at the Commonwealth Department of Environment, Water, Heritage and the Arts gave her a taste for the harbour city. Moving to Sydney and the AEMC she has started afresh in energy - building on her applied science degree (environmental management) and her Commonwealth Government background working on specific policy areas of international and national chemical management reform, the National Water Initiative, and the Solar Cities Programme. She is project managing our review into the market framework impacts of climate change policies. This project has set new standards for the AEMC in establishing extensive stakeholder engagement. "The work here is different and not easy," she says. "It's all about detail and starting from first principles. It is more like a think tank than a government department – I am maturing here."



MARKET REVIEWS CONTINUED

- the arrangements (including information, reporting and data requirements) that need to be put in place to facilitate its application; and
- as appropriate, the development of proposed rules to support the applications of a TFP based form of control for any individual or group of electricity or gas distribution or transmission service providers.

The AEMC has adopted a staged approach to the review. First, the AEMC will make an assessment of whether it considers that a TFP methodology would promote either the NEO and/or NGO and therefore should have a role in the relevant decision making processes. In doing so, the AEMC will look at the possible range of models for applying TFP and will assess the issues relevant to the rule change proposal. At the end of this stage, the AEMC will provide its findings to the MCE for its consideration (Stage 1 Final Report).

If the AEMC considers that rules should be made to facilitate the use of a TFP based methodology for either, or both, gas decisions or electricity determinations it will then proceed to develop its recommended draft rules to be submitted to the MCE (Stage 2 final report). In doing so, the AEMC will have regard to considerations from the MCE on the Stage 1 final report.

Key preliminary findings

To facilitate stakeholder participation in the review process the AEMC has released a number of reports to inform stakeholders on the issues surrounding TFP and to provide a contact for submissions to the review.

Next steps

Following the release of the AEMC's design discussion paper (28 August 2009) workshops with stakeholders will be held to discuss design details of a TFP methodology. It is anticipated that the Stage 1 draft report will be released in December 2009 and the Stage 1 final report in April 2010.

[Review on National Framework for Electricity Distribution Network Planning and Expansion](#)

Why is the review being conducted?

The Australian Energy Market Agreement, as amended, outlined that a number of energy distribution functions carried out by jurisdictions would be transferred to the national framework. A number of functions have already been transferred to the national framework and work is ongoing for the outstanding items. One of the outstanding items is the national framework for determining when distribution network extensions are part of regulated services. This influences the electricity

distribution economic network planning function. In this regard, the MCE directed the Commission to conduct a review into the current electricity distribution network planning and expansion arrangements in the NEM with the view to establishing a national framework for distribution network planning and expansion.

Overview

The objective of the review is to create a national framework to provide a clearly defined and efficient planning process for distribution network investment and support the efficient development of distribution networks. Appropriate transparency and information regarding the Distribution Network Service Providers' (DNSPs') planning activities would be provided to allow market participants to make efficient investment decisions and to enable non-network proponents to raise credible alternatives.

Key preliminary findings

The draft report for this review was published on 7 July 2009. Our draft recommendations for the national framework were that the national framework should include:

- a requirement for DNSPs to perform an annual planning process including carrying out a Demand Side Engagement Strategy;

MARKET REVIEWS CONTINUED

- a requirement for each DNSP to publish an annual planning report by 31 December each year, covering a minimum five year forward planning period starting 1 January the following year;
- a new project assessment process, the Regulatory Investment Test for Distribution (RIT-D), which would replace the current Regulatory Test; and
- a single dispute resolution process to raise disputes with respect to any aspect of DNSPs' RIT-D processes would be available to registered participants, the AEMC, connection applicants, intending participants and non-network proponents.

Next Steps

We will submit the final report for the review to the MCE by 30 September 2009. The MCE will consider the recommendations and decide upon the appropriate design for the national framework. The national framework would then be implemented through a formal rule change.

[Review into the Role of Hedging Contracts in the Existing National Electricity Market \(NEM\) Prudential Framework](#)

Why is the review being conducted?

In this review, the Commission is seeking to provide advice to the MCE on ways in which NEM participants'

futures and other types of contracts can be integrated into the NEM prudential framework with the objective of enhancing the operation and efficiency of that regime. Prudential requirements in the NEM result in costs for retailers that are likely to increase as a result of climate change policy. Offset security arrangements that do not increase risk for participants and the market operator have the potential to reduce prudential costs.

Overview

The Commission considered a rule change proposal on Futures Offset Arrangements (FOAs) proposed by three NEM participants: Australian Power & Gas, Infratil Energy Australia and Momentum Energy (Proponents). The rule change proposal sought to modify the Maximum Credit Limit (MCL) calculation methodology, and define and accommodate FOAs within the National Electricity Rules (Rules).

Under the rule change proposal:

- the proponents proposed to modify the MCL calculation methodology in the Rules. Rather than the MCL methodology using a backward looking price observation as a basis for predicting future pool prices, it would utilise Sydney Futures Exchange (SFE) electricity futures prices as the key inputs of the model, representing a forward looking view of future pool price outcomes; and

- the proponents proposed to define and accommodate FOAs within the Rules.

An FOA would be a commitment entered into by an SFE clearing participant on behalf of a NEM participant to redirect positive cash flows associated with the NEM participant's futures position to AEMO to protect against the default of the NEM participant. The positive cash flows are to be held in a security deposit account. In return, the NEM participant would only provide bank guarantee support to AEMO up to a level equivalent to the futures price at which the FOA was initiated and beyond which cash payment obligations from the SFE clearing participant to AEMO would arise under the FOA.

Key preliminary findings

On 22 January 2009, the Commission published a draft rule determination which did not make a draft rule due to the risks associated with the proposed rule. This was confirmed in the final rule determination made by the Commission on 16 April 2009.

The Commission noted that an option to address the issues raised by the rule change proposal was to make a more preferable rule under section 91A of the NEL. The Commission, however, decided not to make a preferable rule under this section of the NEL due to

Kamlesh Khelawan, Director Kam brings over 20 years of experience to the AEMC having worked for both electricity and gas businesses, most recently at AGL where he was Manager Policy and Strategy. Over the last decade he has focused on market development and regulation on behalf of leading corporates and has been a member of a range of industry and market operator committees and boards. He has qualifications in engineering (B.Eng, Auck) and commerce (M.Comm UNSW). He is now leading our review into the role of hedging contracts in the NEM prudential framework. He is managing the challenge of ensuring a sound prudential quality in the national electricity market balanced against reduced costs for businesses participating in the wholesale market.



MARKET REVIEWS CONTINUED

the complexity of the issues and the need for detailed consultation and expert advice.

The Commission considered that there were elements of the proposed rule which had merits and warranted investigation. In particular:

- the futures price information could be valuable in providing a forward looking view to determine an adequate MCL level; and
- a robust FOA model could potentially reduce prudential costs of NEM participants.

To develop a feasible solution to address the risks associated with the rule change proposal (if it is possible), the Commission decided to conduct a review under section 45 of the National Electricity Law (NEL). This review aims to develop a robust model to offset the prudential requirement of a NEM market participant using its futures and other contract positions. In addition, the review would examine ways in which the calculation of the MCL may be improved.

Next steps

A draft report is due to be published in November 2009 with a final report to the MCE to be published in February 2010.

[Review of the Effectiveness of NEM Security and Reliability Arrangements in Light of Extreme Weather Events](#)

Why is the review being conducted?

In May 2009, the MCE requested a review into the challenges faced by the NEM in light of extreme weather events.

Overview

The MCE's request for advice directed the AEMC to consider the following, in the context of extreme weather events such as droughts, heatwaves, storms, floods and bushfires:

- examine the current arrangements for maintaining the security and reliability of supply to end users of electricity and provide a risk assessment of the capability of those arrangements to maintain adequate, secure and reliable supplies;
- provide advice on the effectiveness of, and options for, cost-effective improvements to current security and reliability arrangements; and
- if appropriate, identify any cost-effective changes to the market frameworks that may be available to mitigate the frequency and severity of threats to the security and reliability of the power system.

On 14 August 2009, the MCE revised the terms of reference to require the AEMC to submit a second interim report providing specific advice on the reliability standard and the market mechanisms to achieve that standard. The revised terms of reference also extended the timing for the final report to 30 April 2010. It will report on any cost-effective changes that could be made to energy market frameworks that would improve system reliability in the longer term and contribute to the more effective management of system reliability during future extreme weather events.

Key preliminary findings

On 1 June 2009, we submitted an interim report to the MCE which described the measures currently under consideration that would improve system reliability and security. It also identified any further cost-effective measures that could be taken in the short term that would impact on system reliability for the summer of 2009-2010.

Next steps

The second interim report is due to be provided to the MCE by 18 December 2009.

The AEMC assesses specific rule change proposals and market reviews within a wider strategic framework that promotes the market objectives. Since we were established four years ago, our work program has been undertaken against the backdrop of changing supply and demand conditions and ongoing COAG reforms. We are well aware of the market's operating environment and understand that it influences the approach taken in rule changes and market reviews.

MARKET REVIEWS CONTINUED

RELIABILITY PANEL REVIEWS COMPLETED IN 2008-2009

[Annual Electricity Market Performance Review – Reliability and Security 2008 Report](#)

Why was the review conducted?

The Reliability Panel of the AEMC is required under the National Electricity Rules to review the performance of the interconnected national electricity system on an annual basis and provide its report to the AEMC.

Overview

A reliable national electricity system is critically important for all Australians. Consumers, energy supply and distribution organisations, and governments all have a direct interest in security and reliability. The events, circumstances and activities that have either positively or adversely affected the supply of electricity to consumers are assessed in terms of two main criteria – the availability of adequate bulk supply to meet consumer demand (reliability) and the technical security of the power system itself (security).

The Panel is responsible for dealing with reliability and security matters in the wholesale bulk electricity market and transmission. The current standard for reliability is that there should be sufficient generation and bulk transmission capacity so that over the long term, no

more than 0.002 per cent of the annual energy for consumers in any region is at risk of not being supplied. Or to put it another way, that the maximum permissible unserved energy (USE) is 0.002 per cent. This is the Reliability Standard.

Key conclusions

The Panel noted that the process for contingency reclassification needs to be more transparent, consistently applied and rigorous, and considers that the recent rule change, Reclassification of Contingency Events, is likely to be crucial in achieving this outcome.

Although the Reliability Standard was not breached, there has been some amount of USE due to security events during the year. The Panel continues to be concerned that these events are having an impact on the continuity of consumer supply, and that from a consumer perspective their impact is not clearly distinguishable from that of the reported reliability events, particularly as they occur at the bulk supply level.

Notwithstanding the issues raised following specific incidents, the reliability and security performance of the power system during the 2007-2008 year was considered to have been generally robust.

Value of Lost Load (VoLL) 2009 Review

Why was the review conducted?

In the year under review, the National Electricity Rules required the Reliability Panel to undertake a review of the Value of Lost Load (VoLL).

Overview

Prior to May 2009, in accordance with clauses 3.9.4(c) and 3.9.6(c) of the National Electricity Rules, the Panel was required to review the Value of Lost Load (VoLL) and market floor price by 30 April each year. In May 2009 the National Electricity Amendment (NEM Reliability Settings: VoLL, CPT and Future Reliability Review) Rule 2009 No.13 renamed VoLL to Market Price Cap (MPC) and replaced the annual review of VoLL with an integrated biennial review of the reliability standard and settings.

Key conclusions

Given that the AEMC was evaluating the NEM Reliability Settings: VoLL, CPT and Future Reliability Review rule change proposal, and that the Panel was commencing a further review of MPC in 2009 as part of its Reliability Standard and Settings Review, the Panel considered that it had effectively fulfilled its obligations in relation to reviewing the level of VoLL.

Anita Lai, Senior Advisor Anita qualified in chemical engineering (B.Eng Hon I UNSW) because she wanted to apply her interest in maths and science in ways that would contribute directly to solving business problems. Her career path has consolidated that ambition. After a time with the electricity market operator, NEMMCO (now AEMO), she worked in consultancies providing analysis and advice to resource companies and investment banks on environmental policy, and resource sectors. At The Marketplace Company she developed and implemented rule changes for a number of her clients including the Gas Market Company, and REMCo. Anita is part of the Retail, Distribution & Network Price Regulation Group.



MARKET REVIEWS CONTINUED

at this time. Therefore, the Panel did not perform an analytical review of VoLL as part of the 30 April 2009 recommendations.

[Review of Mainland Frequency Operating Standards During Periods of Supply Scarcity](#)

Why was the review conducted?

The National Electricity Market Management Company (NEMMCO), now the Australian Energy Market Operator (AEMO), lodged a request for clarification on whether the lower limit of the NEM mainland frequency operating standards could be reduced to 47.5 Hz during periods of supply scarcity associated with load restoration.

Overview

Following its review of an incident in Victoria on 16 January 2007 when a large portion of the load was shed, based on the Under Frequency Load Shedding Scheme, the Australian Energy Regulator (AER) recommended that NEMMCO seek clarification on whether the lower limit of the NEM mainland frequency operating standards could be reduced to 47.5 Hz during periods of supply scarcity associated with load restoration.

The mainland frequency operating standards define the range of allowable frequencies for the power system while the load is being restored following a major power system incident on the mainland of the NEM.

Key conclusions

In its final determination, the Panel amended the frequency operating standards for the NEM mainland that apply in an island region during periods of load restoration. The minimum allowable frequency for a single generator contingency during load restoration following an islanding event is:

- 48.0 Hz for the Queensland and South Australian regions;
- 48.5 Hz for the New South Wales and Victorian regions; and
- in cases where an island incorporates more than one region, the critical frequency to be adopted is the maximum value of the critical frequencies for these regions.

[Review of Frequency Operating Standards for Tasmania](#)

Why was the review conducted?

Clause 8.8.1(a)(2) of the National Electricity Rules requires the Reliability Panel to:

review and, on the advice of AEMO, determine the power system security and reliability standards. The power system security and reliability standards set out the frequency levels for the operation of the power system, which is specified in the frequency operating standards.

In accordance with section 38 of the NEL and clause 8.8.3 of the National Electricity Rules, the AEMC requested the Panel, to undertake a review of the frequency operating standards for Tasmania.

Overview

As part of its Comprehensive Reliability Review, the Commission published on 25 May 2006 the final determination by the Reliability Panel on the frequency operating standards applicable in Tasmania from 29 May 2007. In this final determination, the Panel foreshadowed that it would revisit the Tasmanian frequency operating standards after at least 12 months operation of Basslink.

The Reliability Panel's analysis showed that there is a need for new and diverse generation for the future security and reliability of Tasmania's electricity supply. Large higher efficiency thermal generating units cannot connect to the Tasmanian network under

MARKET REVIEWS CONTINUED

existing frequency operating standards which allow frequencies down to 46 Hz and as high as 60 Hz. While some stakeholders proposed tightening the operating standards to a range of 47 to 52 Hz, other stakeholders expressed concerns that this would raise the costs of running the state's power system (given that additional ancillary services are required to ensure that the system can maintain its performance).

Key conclusions

The Panel tightened the Tasmanian frequency operating standards but prescribed a contingency limit. This is expected to lead to reduced electricity costs in Tasmania in the long run by allowing additional higher efficiency generating units to connect without imposing materially higher market ancillary services costs and significantly impacting wind farm penetration, provided the size of the largest generator contingency is limited.

[Reliability Panel Technical Standards Review](#)

Why was the review conducted?

In November 2005 the MCE directed the AEMC to perform a review of the enforcement and compliance with technical standards. The AEMC published the final report for its Review of Enforcement and Compliance with Technical Standards on 1 September 2006. One of the dimensions addressed by the AEMC review was

ensuring that there are clear and appropriate technical standards. This review responded to the AEMC request that the Reliability Panel undertake a review of the adequacy and content of the technical standards.

Overview

The NEM technical standards define the level of performance required of the equipment that makes up, and is connected to, the NEM power system. The overall power system is operated to these standards and allows the power system operator, AEMO, to effectively manage power system security. If all generators adhere to these standards a power system incident is less likely to lead to a cascading failure and endanger power system security. Other aspects of the technical standards specify the quality of the electricity services that the network and those connected to the network can expect. This allows parties to invest in and operate equipment with a reasonable assurance of the quality and expected performance of other parties connected to the network.

The AEMC approved the terms of reference for this review in February 2008. The final report was published on 30 April 2009.

Through our work programme and interactions with market participants, we have identified a number of emerging market challenges, some of which are likely to require further energy policy and/or rule change proposals. Many of the challenges relate to the likely change in the mix of electricity generation as the Australian economy transitions to lower carbon emissions. A rapid and large expansion of wind and other forms of renewable generation will create challenges for system operation and network expansion. We need to ensure that the market parameters create sufficient incentives for generation investment to meet our energy needs.

Key conclusions

In its final report, the Panel recommended:

- twelve guiding principles on which to base a detailed review of the technical standards in the NEM;
- deferring the next phase of the review, which would review the detail of the technical standards based on the 12 guiding principles, until sufficient new connections have taken place under the current technical standards such that their effectiveness can be appropriately assessed; and
- developing an interim Rule change to correct minor errors or inefficiencies in the current technical standards.

Next Steps

At the time of writing, the Panel was developing a rule change to correct minor errors as described above. It is expected the review of the standards against the guiding principles will commence in 2010.

[Guidelines for a Return to a Secure Operating State](#)

Why is the review being conducted?

One of the functions of the Reliability Panel is to prepare guidelines that determine how AEMO should, when returning the power system to a secure operating state following a contingency event, take into account both the costs and benefits to market participants and

MARKET REVIEWS CONTINUED

the need for a timely return to a secure state. The Reliability Panel is preparing the guidelines for clause 4.2.6(b)(2) of the Rules.

Next Steps

The Reliability Panel formed a short term technical reference group to prepare recommended guidelines for consultation. In light of its extensive work program for 2009, in February 2009, the Panel decided to defer this review until 2010.

Reliability and Emergency Reserve Trader (RERT) Guidelines

Why was the review conducted?

Following the making of the National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008 No. 6, the Rules required the Panel to develop guidelines for NEMMCO's exercise of its power to enter into contracts for the provision of reserves.

Overview

In accordance with the Rules, the Panel was required to publish its first Reliability and Emergency Reserve Trader (RERT) Guidelines by 30 November 2008. The guidelines were published on 24 November 2008.

Key conclusions

The Reliability Panel developed and published the RERT guidelines which covered the following key areas:

- what information NEMMCO must take into account when deciding whether to exercise the RERT;
- the relevance of the RERT principles to the exercise of the RERT;
- the actions that NEMMCO may take to be satisfied that the reserve that is to be the subject of a reserve contract is not available to the market through any other arrangement;
- the process NEMMCO should undertake in contracting for reserves including the process for tendering for contracts for such reserves;
- any specific or additional assumptions about key parameters that NEMMCO must take into account in assessing the cost effectiveness of exercising the RERT;
- matters relevant to NEMMCO managing a portfolio of reserve contracts; and
- additional forecasts that NEMMCO should take into account prior to exercising the RERT.

RELIABILITY PANEL REVIEWS CURRENT AT 30 JUNE 2009

Review of Reliability Standard and Settings

Why is the review being conducted?

On 3 March 2009 the AEMC approved terms of reference requesting the Panel to commence a review of the Reliability Standard and settings in accordance with clause 3.9.3A(a) of the National Electricity Rules (Rules), following the Rules consultation procedures.

Overview

This review is required to be conducted biennially by the Panel. The objectives are to:

- determine whether the existing Reliability Standard is appropriate for current market arrangements given that the existing annual standard was exceeded as a result of the South Australian/Victorian heatwave in January 2009;
- determine the form and level of the Reliability Standard that should apply from 1 July 2012;
- determine, given the Reliability Standard chosen to apply in the NEM from 1 July 2012, the appropriate reliability settings (Market Price Cap, Cumulative Price Threshold and Market Price Floor) to achieve the Reliability Standard; and
- propose processes for implementing any changes arising from the review.

Andrew Truswell, Senior Advisor Andrew was sponsored by the AEMC to move to Australia and take up his position on our Wholesale, Environment and Transmission team. He came from National Grid, which owns and operates regulated electricity and gas networks in the UK and USA and he is qualified in industrial economics (BSc, University of Warwick). One of his first projects here was to examine Western Australia's energy market as part of our Review of Energy Market Frameworks in light of Climate Change Policies. "This move has been a fantastic professional opportunity with a much wider scope of work than I was used to," he says. "The WA market analysis included everything from retail regulation to system operations and reliability and gas/electricity convergence. That project represents all the strengths of my work here – high level, wide-ranging and challenging."



MARKET REVIEWS CONTINUED

Key preliminary findings

At the time of writing, modelling analysis was being undertaken to investigate the effects of various levels of the reliability settings on unserved energy.

Next steps

A draft report is due to be issued in December 2009, with a final report and recommendations due by April 2010.

[Review of the Operational Arrangements for the Reliability Standards](#)

Why is the review being conducted?

In December 2007 the AEMC Reliability Panel completed its Comprehensive Reliability Review of reliability in the National Electricity Market. It contained a number of recommendations relating to aspects of the management of electricity supply shortfall events. Following reliability incidents in Victoria and South Australia that took place on 29 and 30 January 2009, the MCE requested the AEMC to review energy market frameworks in light of the impact on electricity supplies of extreme weather events. The AEMC then issued terms of reference to the Reliability Panel for this review to provide a strategic focus for a range of proposals for improvement to the reliability standard and its operationalisation.

Overview

On 3 March 2009 the AEMC approved terms of reference requesting the Panel to undertake in accordance with section 38 of the National Electricity Law and clause 8.8.3 of the National Electricity Rules a review relating to operationalisation of the reliability standards.

Specifically the terms of reference requests that the Panel conduct reviews into the following aspects of operationalisation of the reliability standards:

- the methodology and process used by AEMO for calculating the minimum reserve levels (MRLs), especially where the MRLs apply across more than one jurisdiction;
- the MRLs and associated arrangements and standards to be used in the short-term reserve assessment of reliability;
- the current guidelines for management of electricity supply shortfall events that were issued by the Panel in September 1998;
- the need and possible design of a short-term version of the RERT that could be used in a critical emergency;
- whether the wording of the standard as published by the Panel in the CRR could be clarified to give better

guidance to AEMO as to how to operationalise the standard; and

- whether the Rules should be amended to clarify the requirement for market participants to inform AEMO, via dispatch bids or offers, of their actual capability under the prevailing or forecast temperature conditions.

Next steps

A final report is due to be published by December 2010.

[Template for Generator Compliance Program](#)

Why is the review being conducted?

Following the making of the National Electricity Amendment (Performance Standard Compliance of Generators) Rule 2008 No. 10 and its commencement on 23 October 2008, the Rules require the Panel to determine and publish the template for generator compliance programs.

Overview

The objectives of this review were to:

- determine compliance principles for the template for generator compliance programs, having regard for the Rules requirements already established;
- establish the scope, content, and format of the template for generator compliance programs; and

The outcomes from the AEMC work programme represent a significant step forward in providing governance that continuously seeks to ensure that market parameters and technical standards are meeting the nation's needs. The Commission undertakes broad consultation on its work programme and specific reviews so that clear understanding of required changes can be achieved.

MARKET REVIEWS CONTINUED

– propose processes for implementing the template for generator compliance programs.

Key preliminary findings

On 8 May 2009, the Panel published its draft report. This report developed draft templates which had been developed by a Panel-chaired working group, including representation from all affected stakeholders, including generators, Transmission Network Service Providers (TNSPs) and the AER.

Next steps

The final report was published on 31 July 2009.

EXPERT PANELS

Under the National Electricity Law, the AEMC has established the Reliability Panel and the Consumer Advocacy Panel.

The National Electricity Market (NEM) framework is designed to provide strong incentives for market participants to maintain a reliable and secure electricity supply system, while seeking cost efficiencies where possible. As part of the energy market governance arrangements the AEMC is required to establish a reliability panel to monitor, review and provide reports and advice on the safety, security and reliability of the national electricity system. The Panel also has responsibilities under the National Electricity Rules including the development of guidelines to be followed by the Australian Energy Market Operator (AEMO).

The Consumer Advocacy Panel (CAP) supports consumer advocacy in policy and regulatory decision-making in national electricity and natural gas markets. The AEMC provides administrative and back office support to the CAP, but does not direct the panel in the performance of its functions.

Dr Julian Eggleston, Director Julian worked on the landmark review of the electricity market's long-term ability to keep the lights on for Australian homes and businesses (Comprehensive Reliability Review, 2007). This year he leads two AEMC Reliability Panel Reviews which implement reforms recommended by the CRR and address issues raised by the January 2009 blackouts in Victoria and South Australia. As an electrical engineer and economist, Julian brings understanding of power system complexity to the daily challenge of how best to balance consumer expectations of constant supply against cost of delivery. The Review of Operational Arrangements for the Reliability Standard (recommending changes ahead of next summer's peak demand) will conclude in December and the Review of the Reliability Standard and Settings reports in April 2010.



AEMC RELIABILITY PANEL

New members of the Reliability Panel commenced on 1 January 2009 and continue the Panel's important contribution to the security and reliability of electricity supply within the wholesale market.

The AEMC has established a strong strategic focus for the Panel's responsibilities. Panel members broadly represent all stakeholders interested in the operation of the electricity market including generators, network service providers, consumer groups and AEMO. Where technical experts are required, working groups have been formed to provide advice directly to the Panel.

Purpose and work of the Reliability Panel

One of the Panel's key roles is to monitor, review and report on the performance of the market in terms of reliability of the power system. In particular, the Panel determines biennially the standard for reliability of supply (the Reliability Standard) and recommends the level of the market reliability settings expected to achieve the Reliability Standard. The market reliability settings are the market price cap (previously known as VoLL), the cumulative price threshold and the market floor price. These market settings balance the investment signals for new generation in the NEM against the financial risks to participants in the NEM wholesale market.

Another key role for the Panel is to review and determine the power system security and reliability standards. These standards include the Reliability Standard but also include the frequency operating standards for the NEM mainland and for Tasmania. In addition, the Panel determines the standards for system restart, following a major blackout. The Panel monitors and reports on the system standards and access standards for network users, such as generators or large customers.

The Panel also develops and determines various guidelines to provide AEMO direction while it is managing various aspects of power system security and the reliability of supply. These include the guidelines for the Reliability and Emergency Reserve Trader (RERT). The Panel is also required to review the need for the RERT a year before the current RERT sunset of 30 June 2012.

Each year the Panel prepares and publishes an annual market performance review. In this review, the Panel reports on overall power system reliability matters, including the operation of the NEM power system against the power system security and reliability standards and the various guidelines. In addition, the Panel reports on the major power system incidents that have occurred in the most recent year and may recommend measures that mitigate against similar

incidents in the future. The work program for the Panel is controlled by the terms of references that it receives from the AEMC or the requirements in the National Electricity Rules. The AEMC may also request the Panel to provide the AEMC with advice for its reviews.

The Reliability Panel has developed a comprehensive forward work programme. At the end of its first five years of operation the Panel will have:

- reviewed the principal market parameters twice to ensure that appropriate incentives are maintained for investment and reliability, including the market price cap, and put in place a comprehensive framework for examining the interrelationships between these market parameters on an ongoing basis;
- reviewed and provided strong guidance through the development of guidelines updating the technical standards for generators;
- developed a process and templates for generation compliance and reporting against the technical standards;
- developed guidelines to enhance transparency about the operation of the reliability and emergency reserve trader arrangements as provided in the Rules; and
- developed a national framework for transmission planning standards.

The Reliability Panel has responsibility for a biennial review of the market price cap, market floor price and the associated cumulative price threshold. It has implemented reforms to the process for reviewing these parameters to provide greater transparency and coordination of the determination of these market parameters. This provides the framework for close monitoring of the existing parameters and allows changes to be made when necessary.

AEMC RELIABILITY PANEL CONTINUED

The outcomes from this work represent a significant step forward in providing a governance arrangement that continuously seeks to ensure that the market parameters and technical standards are meeting the market's needs. Like the AEMC itself, the Panel has undertaken broad consultation on its program and specific reviews so that a clear consensus on the changes that are required can be achieved.

Membership

The Chairman of the Reliability Panel in the year under review was AEMC Commissioner, Mr Ian Woodward.

The Chief Executive, or a delegate, of AEMO has a permanent position on the Panel. Following the commencement of AEMO from 1 July 2009, Mr Brian Spalding was appointed as AEMO's delegate.

Panel members must include a representative from generators, market customers, transmission network service providers, distribution network service providers, and a person representing the interests of end use customers for electricity.

New Panel members took up their positions in January 2009 following a call for nominations in July 2008. With the exception of Mr Woodward and Mr Spalding, the appointments of current members expire in December 2010.

Reliability Panel Meetings 1 July 2008 – 31 December 2008

MEMBER	ORGANISATION	ELIGIBLE	ATTENDED
Ian Woodward (Chairman)	AEMC	5	5
Les Hosking	NEMMCO	5	4
Gordon Jardine	Powerlink Queensland	5	4
George Maltabarow	EnergyAustralia	5	3
Stephen Orr	International Power	5	5
David Swift	Electricity Supply Industry Planning Council (ESIPC)	5	5
Geoff Willis	Former Hydro Tasmania	5	4
Jeff Dimery	AGL	5	1
Mark Grenning	Rio Tinto	5	2
Kerry Connors	Consumer Utilities Advocacy Centre (CUAC)	5	4

Reliability Panel Meetings – New Members from 1 January 2009 – 30 June 2009

MEMBER	ORGANISATION	ELIGIBLE	ATTENDED
Ian Woodward (Chairman)	AEMC	2	2
Brian Spalding	NEMMCO (AEMO from 1 July 2009)	2	2
Gordon Jardine	Powerlink Queensland	2	2
Hugh Gleeson	United Energy	2	2
Stephen Orr	International Power	2	2
David Swift	Electricity Supply Industry Planning Council (ESIPC)	2	1
Tim O'Grady	Origin Energy	2	1
Mark Grenning	Rio Tinto	2	2
Gavin Dufty	St Vincent de Paul Society, Victoria	2	2

THE CONSUMER ADVOCACY PANEL

The Consumer Advocacy Panel (CAP) replaced the National Electricity Consumers Advocacy Panel on 1 July 2008. The CAP now has a broader mandate – adding the new mission to support the interests of gas consumers to its established advocacy on behalf of electricity customers and their families.

CAP is an independent body established to provide funding for advocacy projects on behalf of consumers in the national electricity and natural gas markets. It initiates research into issues of benefit to energy consumers. CAP's Executive Director is responsible for the management of its functions and for the provision of strategic and operational advice to CAP members.

The AEMC provides CAP's staff, including the Executive Director, and administers the funds and activities of the Panel in accordance with CAP decisions. CAP's funding for electricity advocacy in 2008-2009 was provided by NEMMCO through market fees, and gas advocacy was funded by the AEMC. From 1 July 2009, following the commencement of AEMO, electricity and most of the gas funding for CAP will be provided by AEMO through market fees. The AEMC will remain responsible for the provision of gas advocacy funding for Western Australia

and the Northern Territory as the markets in these jurisdictions are not operated by AEMO.

Members

CAP comprises five members, a chairperson and four members. The transition provisions of the Act provided for the appointment of the members of the National Electricity Consumer Advocacy Panel at 30 June 2008 to the Consumer Advocacy Panel on 1 July 2008.

A competitive selection process was conducted during the year which resulted in the MCE re-appointing the then current members with effect from 1 April 2009.

Panel members are:

- Frank Peach, Chair – appointed until 31 March 2012.
- Catherine Cooper – appointed until 31 March 2013.
- Bruce Connery – appointed until 31 March 2013.
- Professor Bill Russell – appointed until 31 March 2012.
- Karen Scott – appointed until 31 March 2013.

For the year ended 30 June 2009, the CAP received 56 applications for funding, 48 of which were approved to a total value of just over \$2.5 million.

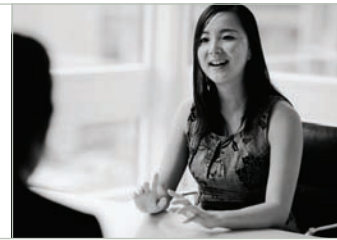
GOVERNANCE

The AEMC must discharge its rule making and market development role in an effective, systematic and transparent manner. To support this endeavour, our Code of Conduct sets out our commitment to fairness, honesty, impartiality and integrity in our dealings with all stakeholders.

We are committed to the highest standards of ethics and honesty. Our working environment is free from discrimination and harassment.

We have a series of governance mechanisms that direct Commissioners and staff on such matters as the management of confidential information, handling of conflict of interest and declaration of pecuniary interests.

Suzanne Vo, Lawyer Suzanne (LLB Macquarie) is part of the AEMC's legal team within the organisation. The team has many functions: it undertakes legal reviews of rule determinations and review reports to ensure consistency with the law and prepares amending rules and advice on corporate and energy law matters. Coming from Origin Energy where she held roles as a business and contracts analyst, Suzanne feels she is contributing to the operational strength of the organisation. "This area of energy law is fascinating as there are plenty of new and different aspects to explore on a daily basis," she says.



GOVERNANCE CONTINUED

APPOINTMENT AND REMUNERATION

The Commission includes one full-time and two part-time Commissioners. The Chairperson and one other Commissioner is appointed by the participating state and territory jurisdictions and one Commissioner is appointed by the Commonwealth.

Initial remuneration levels are set at the time of a Commissioner's appointment then adjusted during the period of appointment according to the annual determinations of the New South Wales Statutory and Other Offices Remuneration Tribunal.

The AEMC's Chief Executive oversees all staff appointments, remuneration and implementation of policy. The Commissioners determine the Chief Executive's remuneration and approve the Chief Executive's recommendations for executive remuneration.

Regular statutory meetings are held for the Commission's formal decision-making role and separate meetings are held to consider organisational governance issues.

COMMISSIONERS	CURRENT TERM	STATUTORY MEETINGS		GOVERNANCE MEETINGS	
		Eligible	Attended	Eligible	Attended
John Tamblyn	2 June 2005 – 1 June 2010	36	36	12	12
Ian C Woodward	20 June 2005 – 19 June 2010	36	34	12	12
John A Ryan	1 September 2008 – 16 October 2009	32	32	10	10
Liza Carver	2 June 2005 – 29 August 2008	4	On leave for 4	2	On leave for 2

Commissioner Liza Carver's resignation after three years of service to the AEMC took effect in September 2008. During the year, the Ministerial Council on Energy started a process for the appointment of a replacement part-time Commissioner. In the meantime, John Ryan, PSM, was appointed acting Commissioner in September 2008.

Mr Neville Henderson was appointed on 3 September 2009 as part-time Commissioner and will commence in that role on 19 October 2009, replacing John Ryan. Commissioner Ryan's term of appointment as acting Commissioner expires on 16 October 2009.

COMMISSIONERS

JOHN TAMBLYN Chairman

Commissioner Tamblyn was appointed inaugural AEMC Chairman in June 2005. His background in the regulation of public utility services includes the positions of Chairman of the Essential Services Commission (Vic) and Regulator-General (Vic). Before being appointed Regulator-General, John held senior positions in the Australian Competition and Consumer Commission (ACCC). He was an adviser to the ACCC on structural reform and public utility regulation and First Assistant Commissioner responsible for fair trading and consumer protection.

Scott Wallace, Senior Advisor Scott made the move from key stakeholder to AEMC team member after consolidating his background in market development and regulation while Regulatory Manager (Wholesale Markets) for Energex. During this time he was also Chair of the Energy Retailers Association of Australia Wholesale Market Working Group. Scott has a mechanical engineering degree (B.Eng, UTS) and is a graduate of the UTS Business School. His career has brought him from onsite power station work for Pacific Power through market development roles at AEMO, and policy analysis at the Queensland Government Department of Energy working directly to the Ministerial Council on Energy reform agenda. He is leading the AEMC's Extreme Weather Events Review and enjoys the collegiate culture here.



GOVERNANCE CONTINUED

He was employed by the International Monetary Fund as adviser to the Government of Seychelles (1986-1987). Prior to that appointment he held positions in the Commonwealth Treasury and Department of Finance. He holds a PhD in Economics (UCLA), an MSc (UCLA), MEc (ANU) and BCom, Hon. (Melb).

IAN C WOODWARD Commissioner

Commissioner Woodward was appointed AEMC Commissioner in June 2005. He also chairs the Reliability Panel and the AEMC Audit Committee. He is an adjunct professor at the global business school INSEAD and a program director and executive consultant with the Macquarie Group. He chairs the Asia-Pacific Partnership Energy Regulatory and Market Development Forum which comprises energy regulatory and industry leaders across Australia, Korea, China, Japan, India, Canada and the United States.

Ian has extensive senior leadership experience in both private and government enterprises in the energy industry, including the Natural Gas Corporation (NZ), The Australian Gas Light Company, the Australian Gas Association (AGA), and the US Secretary of Energy, where he acted as an adviser. He is an alumnus of the

University of New South Wales, the Australian Graduate School of Management, University of New England and Columbia Business School.

JOHN A RYAN Commissioner

Mr John Ryan, PSM, was acting AEMC Commissioner from September 2008 to 18 October 2009. He is executive director of Cloon Economics, chair of the National Research Infrastructure Council, member of the Renewable Energy Demonstration Fund and member of the International Energy Agency Business Council.

John was Deputy Secretary of the Commonwealth Department of Resources, Energy and Tourism. He was the inaugural chair of the Standing Committee of Officials for the Council of Australian Governments' Ministerial Council on Energy, a member of the Prime Minister's 2004 Energy White Paper Task Force and head of the secretariat for the Prime Minister's Review of Uranium Mining, Processing and Nuclear Energy which examined impediments to, and opportunities for, the expansion of uranium mining, downstream processing and development of nuclear energy in Australia.

John chaired the Governing Board of the International Energy Agency in 2006 and 2007 and was lead shepherd of the APEC Energy Working Group. He holds a B.Ec (Monash) and M.Ec (ANU).

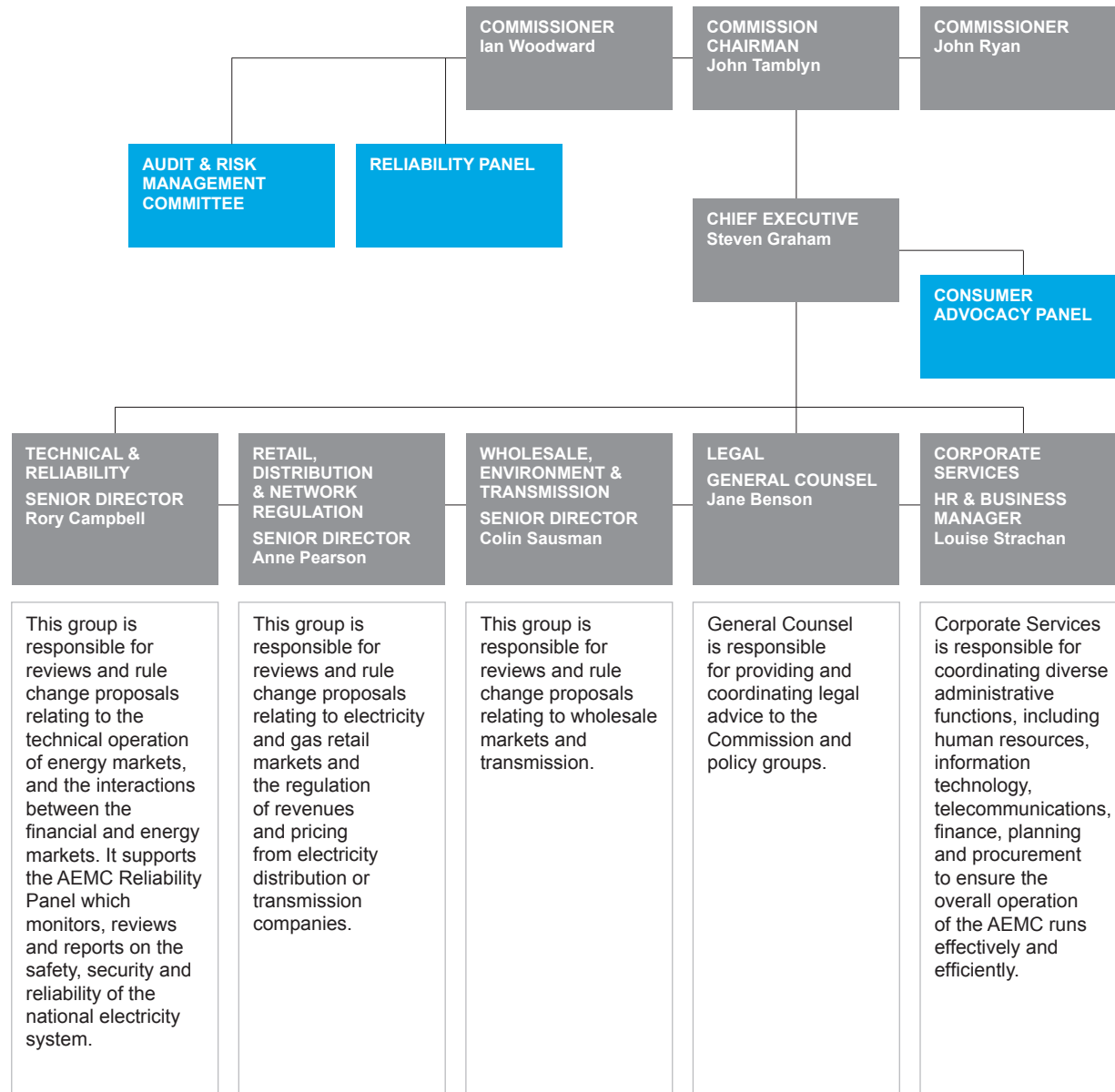
LIZA CARVER Commissioner

The resignation of Liza Carver, who was appointed AEMC Commissioner in June 2005, took effect from September 2008. Liza is a partner in the law firm Gilbert and Tobin, specialising in trade practices and competition law. She has held regulatory roles with the Trade Practices Commission, the Australian Competition & Consumer Commission and the NSW Independent Pricing and Regulatory Tribunal. She has qualifications in law and economics, including a Master of Laws.

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.

ORGANISATION & RISK MANAGEMENT



Organisation at 30 June 2009

GOVERNANCE CONTINUED

The following declarations of interest were made by Commissioners in 2008-2009:

- Commissioner Ian Woodward declared that as Chairman of the Reliability Panel he would not participate in the Commission's decisions on NEM Reliability Settings and the Future Reliability Review Rule change proposal (Rule change proposal from the Reliability Panel).
 - It was decided that, given Commissioner Woodward's expertise, the Commission would benefit from his comments on this matter.
- Commissioner John Ryan declared a potential conflict of interest in relation to the Review of Energy Market Frameworks in light of Climate Change Policies.
 - It was decided there was no conflict of interest that would prevent Commissioner Ryan from participating in the decision making on this matter.
- Commissioner Woodward re-declared his potential conflict in relation to the Victorian Jurisdictional Derogation (Advanced Metering Infrastructure Rollout) Rule change proposal following receipt by the AEMC of a submission from Macquarie Capital Finance (UK).
 - In this instance it was decided that Commissioner Woodward would participate in the discussion but not in the decision making on this matter.

Georgie Atherton, Systems Administrator Georgie came to the AEMC in 2006 on a work placement as part of her business services studies for the Higher School Certificate. After school she returned to the AEMC as an administration assistant. Georgie's flair for technology and her ability to troubleshoot applications quickly lead to her becoming a key member of the IT infrastructure development projects at the AEMC. She has also obtained TAFE-accredited qualifications and is now our Systems Administrator responsible for staff training and support across a number of vital systems including the document and records management system and web administration. She is also helping implement our new XML-based publishing system.



GOVERNANCE CONTINUED

Strategic and Business Issues

The AEMC's three year strategic plan is prepared annually by the management team in consultation with the Commissioners before approval by the Commission. This planning process has regard to a number of market and other inputs including a risk assessment process.

The AEMC has identified the following priorities for its strategic business development:

Expanding responsibilities	Integration, skills, timing uncertainty, stakeholder relationship development
Stakeholder relations	Turnover of key stakeholders, further development of informal level interactions while remaining independent, understanding differences in views, reputation management
Workload management	Planning, prioritisation, resource and availability, timely delivery
Changing energy market environment	Increased demands for rule change and review work, more complexity arising from non-energy market policy, interactions with energy market frameworks
Skill availability	Commissioner succession, staff recruitment, retention and development, contractor/consultant availability
Legal challenge	Lack of procedural fairness, failure to comply with law

Our Annual Strategic and Business Plan has strategies in place to address these issues in line with the organisation's strategic goals to:

- proactively support efficient market frameworks that deliver security and reliability of supply;
- add value as a rule maker and market developer to the national electricity and natural gas markets;
- deliver rule change determinations and reviews that are accessible and inform market development; and
- continue to build expertise and operate an efficient organisation.

Audit and Risk Management

We have a number of processes to identify, assess and manage risk.

- Our Audit and Risk Management Committee monitors the overall risk management framework, financial reporting processes, processes for compliance, performance of auditors and oversees the audit program.
- A broadly based risk assessment process is used to develop a rolling three-year internal audit plan and inform risk management activities.
- The business planning and information technology strategic planning processes prioritise actions based on assessed risks.
- Compliance areas are identified and at present managed on a functional basis with legal support where necessary.
- Finally, a project management framework is used for all rule, review and corporate projects. This includes the creation of a risk register and the active management of identified risks.

Leen Van den Eynden, Advisor Leen's career as a corporate lawyer specialising in energy, environment and competition practice areas was established in Belgium and The Netherlands after she concluded her postgraduate qualifications in Competition Law and Economics LLM (Erasmus University of Rotterdam). She worked as a legal advisor with the Commission de Régulation de l'Electricité et du Gaz, the Belgian Energy Regulator. She was seconded as an in-house lawyer to Daikin Europe before she joined Exxon Mobil's in-house legal team to provide legal advice within the Belgian, Dutch and Luxembourg jurisdictions. Leen has found a natural fit here at the AEMC. She worked on the smart meter derogation and helped develop legal documents supporting the Ministerial Council on Energy's National Framework for Smart Meters. "So much of our work engages a range of disciplines, not just law, not just economics – I like to always keep an open mind."



GOVERNANCE CONTINUED

Commission Audit and Risk Management Committee Membership & Meetings

	ELIGIBLE	ATTENDED
Ian Woodward – Committee Chairman (AEMC Commissioner)	4	4
John Tamblyn – Committee Member (AEMC Chairperson)	4	4
Glenn Appleyard – Independent Committee Member	4	4

Fraud Prevention

Within our risk management framework, specific 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

During the year the Business Continuity and Disaster Recovery Plan was reviewed. As part of the review a simulated disaster was created and responsible managers participated in an exercise to familiarise themselves with the plan and identify areas that required redesign. In addition, a number of workshops were held with senior management and the recovery teams to test the plan's operation.

Freedom of Information

The AEMC is subject to the Freedom of Information Act 1991 (SA). There were no requests lodged under Freedom of Information in 2008-2009.

All documents we publish regarding our rule making, reviews of the National Electricity Market (NEM) and all versions of the National Electricity Rules are made available on our website at 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.

AEMC Code of Conduct

The objectives of the Code of Conduct are to ensure:

- a working environment free from discrimination and harassment.
- all business actions and decisions are based on the highest standards of ethics and honesty, free from conflicts of interest or pecuniary interest.
- any benefits or gifts obtained while performing duties for the AEMC are treated in accordance with our Code of Conduct procedures.
- all information in our possession is protected and safeguarded and our resources are used efficiently and economically.
- any instances of possible breaches of governance processes, corruption or serious and substantial waste are reported to the appropriate AEMC officer.
- where employees engage in other employment or business, it neither compromises nor conflicts with their work for the AEMC.



ONLINE SURVEY 2009 – POSITION OF RESPONDENTS

CEO/Managing Director 21%
 Corporate Affairs 2%

Regulatory Manager 43%
 Other 34%



ONLINE SURVEY 2009 – PERCENTAGE OF RESPONDENTS

Electricity – distribution 12%
 Regulator 14%

Electricity – transmission 9%
 Operator 9%

Electricity – retailer 6%
 Government department 5%

Gas – distribution 1%
 Industry representative/association 8%

Gas – transmission 2%
 Consumer representative/association 6%

Generator 13%
 Law firm or consultancy 7%

Ombudsman 2%
 Other 6%

GOVERNANCE CONTINUED

STAKEHOLDER ENGAGEMENT

To be effective the AEMC must maintain contemporary knowledge of current and emerging issues facing market participants, consumers and other stakeholders. The need for informal engagement with stakeholders will increase as the AEMC's responsibilities expand to include customer protection frameworks and as external policy initiatives, such as those to address climate change, are implemented.

A stakeholder strategy and annual communications plan has been developed to ensure Commissioner and Senior Management Team engagement with stakeholders covers all stakeholder interests.

In addition to formal stakeholder engagement through meetings with stakeholders regarding reviews and rule change proposals, the AEMC conducts stakeholder meetings with industry and consumer bodies, federal and state government ministers, government agencies, and members of national and international jurisdictional bodies. We also attend and deliver papers at national and international conferences. Topics discussed in meetings and conferences this year included smart metering, climate change impact modelling, financial markets, competition aspects of regulatory reform, transmission and distribution planning and demand management.

Public consultations are integral to all our reviews and every rule change proposal. As part of our rule-making responsibilities and also in conducting reviews, we seek submissions and written comments from the public. All submissions are considered in our determinations and decisions. All are also published on our website (subject to the AEMC considering any claim of confidentiality).

The Commission may hold public hearings as part of some of our rule-making processes. These can be held before we publish a draft or final determination.

In the year under review we conducted 10 public forums relating to rule changes and reviews under consideration and addressed 286 written submissions.

Leaders of rule change and review projects are also spending more time on bilateral and multilateral consultation (organised within statutory and project deadlines). During this year the AEMC also convened an advisory panel of community and industry leaders in this area of market reform to advise our review of Energy Market Frameworks in Light of Climate Change Policies.

Measuring our performance

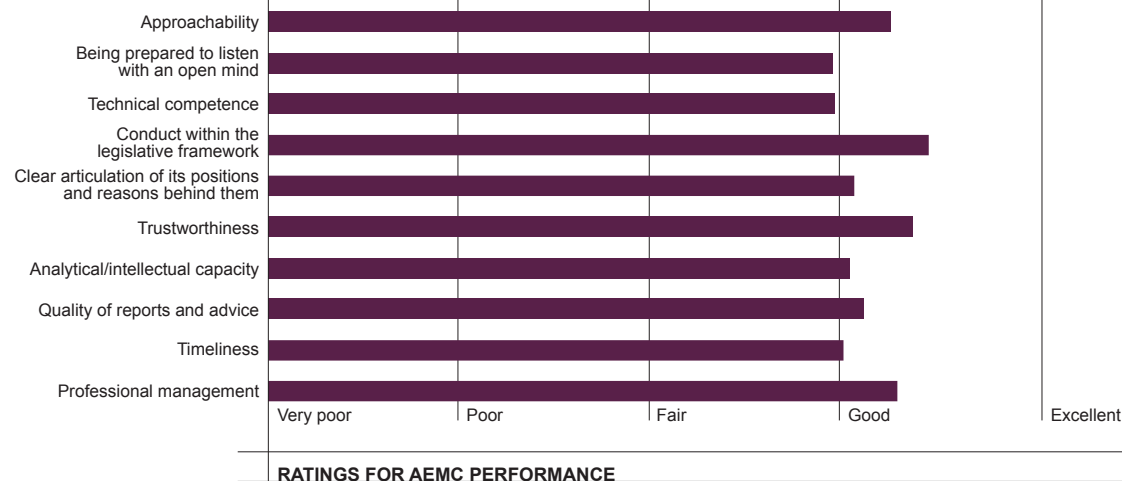
We conducted stakeholder surveys for the first time in 2008-2009 to help us measure ongoing performance and identify areas for improvement.

Key results:

- 72% believe there is often or always adequate opportunity to consult with us.
- 88% of stakeholders believed access to the AEMC had risen (33%) or stayed the same (55%) over the past 12-18 months
- 86% of stakeholders believed that AEMC engagement had risen (48%) or stayed the same (38%) over the past 12-18 months
- 86% of stakeholders believed that the clarity of our reports had improved (31%) or stayed the same (55%) over the past 12-18 months
- 61% rate their consultation experience with the AEMC as good or excellent

An area identified by stakeholders as a challenge was the number of rule and review projects and the diversity of subject matter. This taxes their ability to provide submissions within statutory timeframes. As the AEMC'S work program is substantially determined by stakeholders themselves we are not able to significantly address this challenge. We have implemented a

GOVERNANCE CONTINUED



number of initiatives to improve the accessibility of AEMC information and will continue to seek to implement improvements in this area.

While the overall stakeholder relationship with us is generally a positive one, we are committed to increasing our initiatives to further improve our direct engagement.

Website Communication

The website www.aemc.gov.au is our most important channel of communication. It gives all our stakeholders, wherever they are, complete and immediate access to AEMC Rules, determinations, policy advice and supporting documents. During the year we redeveloped the site to ensure we continue to meet stakeholder expectations and best practice. The new site was released on 1 June 2009.

To ensure the new website would satisfy stakeholder expectations, we conducted website audience analysis and initial user consultation. This guided the development of the information architecture and layout of key web pages. Our priority is to give stakeholders quick and easy access to energy market Rules and debates on energy market development, and to help all interested parties participate in our expanding programs of public consultation. The new website is

now searchable – making it easier to research and analyse our decisions. It contains better organised, more detailed information and a range of new services including online lodgement of rule change proposals and submissions.

PEOPLE Senior Management Team

STEVEN GRAHAM Chief Executive

Steven Graham is the AEMC's first Chief Executive. Since taking up the position in January 2006, he has led the organisation's establishment, laid the vision for its progressive, imagination-driven culture and overseen its rapid expansion.

Building on his broad experience in change-management positions across the national electricity market and government – including roles in RailCorp, Eraring Energy, Pacific Power and NSW Treasury – his priority is to develop an organisation that is professional, capable, and responsive and operates with high standards of governance.

Steven is a member of the Australian Institute of Company Directors and has served on the boards of Pacific Western, Mount Arthur South, Energy Efficient

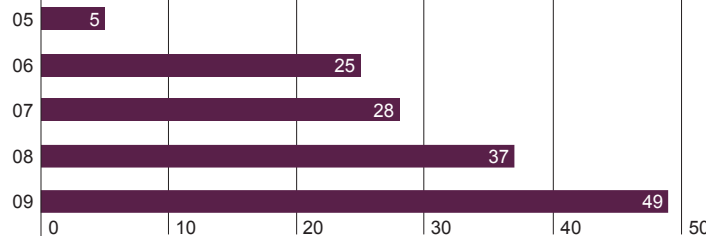
Research Centre, Eraring Holdings and Mount Arthur South Coal Marketing and Finance. Steve earned his Company Directors Diploma at the Australian Institute of Company Directors and University of New England and a Diploma of Technology (Commerce) at the NSW Institute of Technology.

RORY CAMPBELL Senior Director, Technical and Reliability Group

Rory's background in the trading of complex financial instruments for one of Australia's biggest energy producers, Eraring Energy, informs his grasp of technical issues surrounding pricing, modelling and forecasts. Before joining the AEMC he was a trader and analyst at the financial institution RMB Australia. Rory holds a PhD in pure mathematics (UNSW) and a BSc, Hon. (UNSW).

ANNE PEARSON Senior Director, Retail, Distribution and Network Regulation Group

Anne's background in regulatory reform encompasses management roles in energy businesses and as a senior adviser to governments. She was executive manager of retail regulation at EnergyAustralia. Her prior appointments include a period in corporate mergers and acquisitions at Freehills and Deacons, where she worked on the introduction of retail



GROWING ORGANISATION WITH OUR ROLE

Total employee numbers 2005-2009 (At June 30)



AEMC EMPLOYEES BY GENDER JUNE 2009

Male 27
Female 22

GOVERNANCE CONTINUED

competition in the New South Wales retail gas market and corporatisation of the Snowy Mountains Hydro Electric Scheme. She holds a BA (Sydney) and LLB, Hon. (Sydney).

COLIN SAUSMAN
Senior Director, Wholesale, Environment and Transmission Group

Colin joined the AEMC from the United Kingdom's Office of Gas and Electricity Markets (Ofgem). In his role as an associate director with Ofgem he was involved in a wide range of regulatory reforms. These included the integration of the electricity wholesale market in England and Wales with the market in Scotland, and the design of new incentives schemes for gas and electricity transmission businesses. He holds a BA (Econ) from St John's College, Cambridge and a MA (Econ) from the University of Essex. He also holds a post-graduate qualification in competition policy.

JANE BENSON
General Counsel

Before joining the AEMC Jane's extensive legal experience included provision of policy advice at senior levels of the Australian Government, European Commission and global law firms including Clifford, Chance (London), Oppenheimer Wolff & Donnelly (Brussels) and Freshfields (London). Her prior

appointments include senior positions in the Australian Energy Regulator and the Competition and Consumer Policy Division of the Australian Treasury. As part of these roles, she assisted in managing Australia's relations on competition policy to the OECD, APEC and WTO. She is admitted as solicitor to the Supreme Court of New South Wales and the Supreme Court of England and Wales. She holds a BA (Sydney); LLB (Sydney).

LOUISE STRACHAN
Human Resources and Business Manager

Prior to her appointment to the Commission, Louise occupied positions managing systems and administration practices for several major law firms as well as a role as a business education teacher in Queensland. Louise holds a BEd, Hon. (QUT).

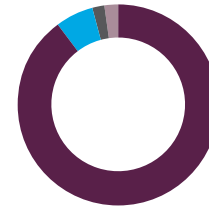
Building the organisation

At the close of 2008-2009 the AEMC had 49 employees including Commissioners, a net growth of 12 employees during the year. We continued the task of growing the capabilities of our people, which is high on our list of organisational strategies.

Training offered to employees included courses on copyright, management, the Victorian gas market, wholesale electricity market, project management,

principles of economic network regulation, occupational health and safety, decision making and report writing, leadership and effective delegation.

Our focus on culture is critical in ensuring we attract and retain people with the right skills, who we recognise and acknowledge are highly valued in employment markets. To this end we have invested much effort and time in a structured program to build a collaborative and inclusive culture that recognises and values the contribution of our people to our mission and actively engages them in the operation of the organisation.



AEMC EMPLOYEES BY EMPLOYMENT STATUS JUNE 2009

■ Full time 44 ■ Secondment 1
■ Part time 3 ■ Term contract 1

GOVERNANCE CONTINUED

Occupational health and safety

We consider the health, safety and welfare of our employees, contractors and visitors to be of primary importance. We are committed to preventing all occupational injuries and illnesses and to maintaining a safe and healthy working environment. We are pleased, therefore, to report that no work-related lost-time injuries were recorded in the year under review.

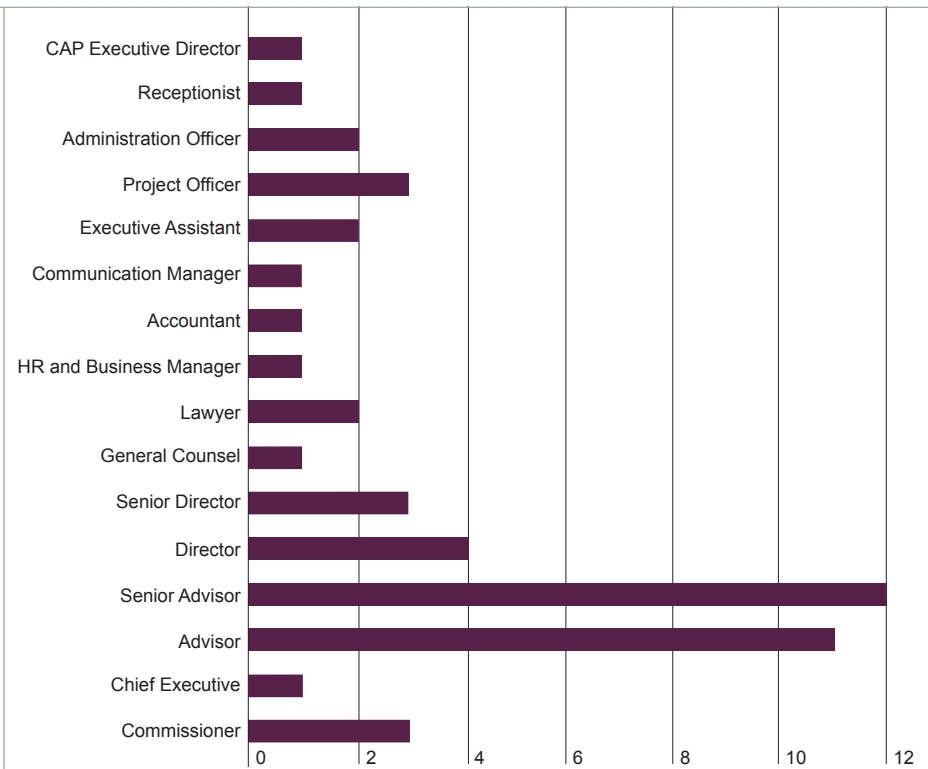
We believe that health and safety at work is a shared responsibility and that everyone must perform their duties with the highest regard for their own safety and that of others. To encourage, promote and demonstrate participation in organisational health and safety, our Occupational Health and Safety Committee meets quarterly and is represented by both staff and senior management.

Learning and Development

Our commitment to developing our people continues through training and development aligned to organisational goals, business direction, career satisfaction and personal growth. Development, which is the personal responsibility of each member of staff, is supported by objective one-on-one feedback and review, coaching/mentoring by other members of

staff and meaningful development, job and career opportunities. Our annual performance and development plan program combines individual performance objectives with specific organisational performance requirements.

We are developing a corporate learning and development plan to provide structure and consistency to our learning and development initiatives.



NUMBER OF EMPLOYEES BY ROLE JUNE 2009

Marc Tutaan, Advisor Marc studied Science/Law at the University of Sydney and his interest in public policy brought him to the Australian Energy Market Commission. Since he started with us two years ago his role has grown from review analyst to rule proposal project leader, and now he is on the Technical and Reliability team. He has started postgraduate studies in economics and says that the attraction in his AEMC work is “the public policy challenge to create Rules that meets the market objective while appropriately balancing often complex and competing stakeholders’ views. We aim to achieve a policy position that is technically feasible, legally sound and economically sensible.”



GOVERNANCE CONTINUED

ENVIRONMENT

The AEMC is a young organisation and its core business revolves around knowledge, reviews and the development of rules. As a result, it has a small environmental footprint. We are nevertheless committed to continually reducing our environmental footprint and improving the efficiency with which we use resources. Measures taken this year included the:

- development of an e-publishing system to increase efficiency and minimise paper consumption;
- purchasing of office equipment with power-save modes and low energy consumption;
- recycling of paper and cardboard products and sorting our recyclables into paper and co-mingled recycling;
- use of video and teleconferencing facilities where appropriate;
- the disposal of toner cartridges through a specialised recycler;
- use of an electronic records-management system, duplex printing and photocopying;
- purchase of carbon offset for air travel and use of public transport when possible; and
- communication of our environmental management commitments to all staff.

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

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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 of the *Public Finance and Audit Act 1987* section 26(2) of the *Australian Energy Market Commission Establishment Act 2004*, I have audited the accompanying financial statements of the Australian Energy Market Commission for the financial year ended 30 June 2009. The financial statements comprise:

- A Statement of Comprehensive Income
- A Statement of Financial Position
- A Statement of Changes in Equity
- A Statement of Cash Flows
- Notes to the Financial Statements
- A Statement of Administered Comprehensive Income
- A Statement of Administered Financial Position
- A Statement of Administered Changes in Equity
- A Statement of Administered Cash Flows
- Notes to the Administered Financial Statements, and
- A Certificate from the Chairperson, Chief Executive and the Corporate Accountant.

The Responsibility of the members of the Australian Energy Market Commission for the Financial Statements

The Commissioners are responsible for the preparation and the fair presentation of the financial statements in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements 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 complies with relevant ethical requirements relating to audit engagements and plans and performs the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the overall presentation of the financial statements.

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

Auditor's Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Australian Energy Market Commission as at 30 June 2009, and 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.

S O'Neill
AUDITOR-GENERAL
30 November 2009

CERTIFICATION OF THE FINANCIAL STATEMENTS

We certify that the attached general purpose financial statements for the Australian Energy Market Commission ("the Commission"):

- complies with relevant Treasurer's instructions issued under Section 41 of the *Public Finance and Audit Act 1987* and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of the Commission; and
- we certify that internal controls employed by the Commission for the financial year over its financial reporting and preparation of the general purpose financial statements have been effective throughout the reporting period; and
- presents a true and fair view of the financial position of the Commission as at 30 June 2009 and the results of its operations and cash flows for the financial year.

Signed in accordance with a resolution of the Commission.

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STEVEN GRAHAM
Chief Executive

25 November 2009



DR JOHN TAMBLYN
Chairperson

25 November 2009



CINDY YANG
Corporate Accountant

25 November 2009

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 \$'000	2008 \$'000
EXPENSES			
Employee benefit expenses	9	6,248	4,925
Supplies and services	10	7,022	6,482
Depreciation and amortisation expense	11	255	180
Grants and subsidies	12	566	–
Net loss on disposal of non-current assets	13	–	334
Other expenses		–	124
Total expenses		14,091	12,045
INCOME			
Commonwealth Revenues		–	913
Interest revenue	6	373	455
Other revenue	7	333	–
Total income		706	1,368
NET COST OF PROVIDING SERVICES		(13,385)	(10,677)
Contributions from participating jurisdictions	8	10,634	13,102
Net result		(2,751)	2,425
Total comprehensive result		(2,751)	2,425

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

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

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STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2009

	NOTE	2009 \$'000	2008 \$'000
CURRENT ASSETS			
Cash and cash equivalents	26	7,897	9,942
Receivables	15	1,716	4,009
Total current assets		9,613	13,951
NON-CURRENT ASSETS			
Property, plant and equipment	16	263	287
Intangible assets	17	1,673	389
Total non-current assets		1,936	676
Total assets		11,549	14,627
CURRENT LIABILITIES			
Payables	18	1,156	1,688
Employee benefits	19	478	343
Total current liabilities		1,634	2,031
NON-CURRENT LIABILITIES			
Long-term payables	18	62	59
Employee benefits	19	363	338
Provisions	21	20	20
Other liabilities	20	90	48
Total non-current liabilities		535	465
Total liabilities		2,169	2,496
Net assets		9,380	12,131
EQUITY			
Retained earnings		7,363	10,114
Working capital		2,017	2,017
Total Equity	22	9,380	12,131

The total equity is attributable to the participating jurisdictions as owners.

Unrecognised contractual commitments	23
Contingent assets and liabilities	24

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	WORKING CAPITAL \$'000	RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
Balance at 30 June 2007		2,001	7,705	9,706
Net result for 2007-08		–	2,425	2,425
Transfer to working capital		16	(16)	–
Total Comprehensive Result for 2007-08		16	2,409	2,425
Balance at 30 June 2008		2,017	10,114	12,131
Net result for 2008-09		–	(2,751)	(2,751)
Total Comprehensive Result for 2008-09		–	(2,751)	(2,751)
Balance at 30 June 2009		2,017	7,363	9,380

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 2009

	NOTE	2009 \$'000	2008 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash outflows			
Employee benefit payments		(6,068)	(4,650)
Payments for supplies and services		(7,913)	(6,628)
Payments of grants and subsidies		(550)	–
Interest paid		–	(59)
GST paid to the ATO		(624)	(211)
Cash used in operations		(15,155)	(11,548)
Cash inflows			
Receipts from participating jurisdictions		13,116	16,100
Receipts from Commonwealth		463	463
Interest received		537	402
GST recovered from the ATO		504	519
Cash generated from operations		14,620	17,484
Net cash (used in) provided by operating activities	26	(535)	5,936
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash outflows			
Purchase of property, plant & equipment		(72)	(206)
Purchase of intangibles		(1,438)	(409)
Cash used in investing activities		(1,510)	(615)
Net cash used in investing activities		(1,510)	(615)
Net (decrease)/increase in cash and cash equivalents		(2,045)	5,321
Cash and cash equivalents at the beginning of the period		9,942	4,621
Cash and cash equivalents at the end of the period		7,897	9,942

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

1 OBJECTIVES OF THE AUSTRALIAN ENERGY MARKET COMMISSION

Australian Energy Market Commission ("the Commission") was established on 22 July 2004 pursuant to the *Australian Energy Market Commission Establishment Act 2004*.

The Commission's key functions under the National Electricity Laws are to:

- consider Rule change proposals and the effect that such proposals may have on the national electricity and gas markets;
- conduct market reviews and inquiries providing analysis and recommendations to inform policy making by the Ministerial Council on Energy (MCE); and
- provide policy advice to the MCE as requested or on the Commission's initiatives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) STATEMENT OF COMPLIANCE

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

Except for the amendments to AASB 101 Presentation of Financial Statements (September 2007 version) which the Commission has early adopted, Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Commission for the reporting period ending 30 June 2009. The Commission has assessed the impact of the new and amended Australian accounting standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of the Commission.

B) BASIS OF PREPARATION

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 twelve month operating cycle 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 2009 and the comparative information presented.

Accounting Policy Statements issued by the South Australian Treasurer require the Commission to disclose income, expenses, financial assets and liabilities where the transaction is with an entity within the South Australian government as at the reporting date, classified according to their nature. A threshold of \$100,000 for separate identification of these items applies.

Apart from contributions received from South Australia, which are disclosed in Note 8 to the financial statements, there were no transactions with South Australian government entities above the threshold.

C) REPORTING ENTITY

The Commission's financial statements includes both controlled and administered items. The Commission's financial statements include assets, income, expenses and liabilities, controlled or incurred by Commission in its own right.

From 1 July 2008, the Commission commenced providing financial services to the Consumer Advocacy Panel (the Panel) in accordance with the requirements of the *Australian Energy Market Commission Establishment Act 2004*. The Panel is not subject to direction by the Commission or the MCE in the performance of its functions.

Prior to 1 July 2008 the Commission received funds from the National Electricity Market Management Company Limited (NEMMCO) on behalf of the National Electricity Consumers Advocacy Panel. Administered activities for 2007-08 relate to the receipt and transfer of these funds to the National Electricity Consumers Advocacy Panel. The National Electricity Consumer Advocacy Panel was abolished on 30 June 2008 and its functions transferred to the Consumer Advocacy Panel.

As these administered items are significant in relation to the Commission's overall financial performance and position, they are disclosed in the administered financial statements and notes at the back of the controlled General Purpose Financial Statements.

D) COMPARATIVE INFORMATION

The presentation and classification of items in the financial statements are consistent with prior periods except were adjusted to reflect the early adoption of AASB 101 *Presentation of Financial Statements* and specific revised accounting standards and South Australian Accounting Policy Statements.

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required e.g. preparation of a single Statement of Comprehensive Income.

The restated comparative amounts do not replace the original financial statements for the preceding period.

E) ROUNDING

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F) TAXATION

The Commission is not required to pay 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.

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

G) INCOME

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

Income has been classified 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:

Contributions received from participating jurisdictions

The Commission's funding is provided through contributions by the jurisdictions participating in the National Electricity Market. SA's contribution to the Commission is an expense of the SA Government not an interagency 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, where the Commission has obtained control or the right to receive for:

- Contributions with unconditional stipulations – recognition 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 – recognition 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 when invoiced.

H) 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 classified 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 benefit expenses

Employee benefit expense includes all costs related to employment including wages, salaries, non monetary benefits and leave entitlements. They are recognised when incurred.

Superannuation expense

The amount charged to the Statement of Comprehensive Income represents the contributions made by the Commission to the employees externally managed superannuation funds.

Depreciation and amortisation of non-current assets

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.

The value of leasehold improvements is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H) EXPENSES (CONTINUED)

Depreciation and amortisation of non-current assets (continued)

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

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

CLASS OF ASSETS	USEFUL LIFE (YEARS)
Leasehold Improvements	Life of lease
Plant and Equipment	3-20
Intangibles	2.5-7
IT Infrastructure	3-5

Net gain / loss on disposal of non-current assets

Any gain /(loss) on disposal is recognised at the date control of the asset is passed to the buyer and is determined after deduction from proceeds of the asset at the time.

I) CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are characterised as either current or non-current in nature. The Commission has a clearly identifiable operating cycle of twelve months. Assets and liabilities that are 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. All other assets and liabilities are classified as non-current.

Where asset and liability line items combine amounts expected to be realised within twelve months and more than twelve months, the Commission has separately disclosed the amounts expected to be recovered or settled after more than twelve months.

J) 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.

Where an asset line item combine amounts expected to be settled within twelve months and more than twelve months, the Commission has separately disclosed the amounts expected to be recovered after more than twelve months.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position and for the purposes of the Statement of Cash Flows includes cash at bank and cash on hand.

Cash is measured at nominal value.

Receivables

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

Collectibility 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.

The Commission capitalises all non-current tangible assets with a value of \$1,500 or greater.

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 2009 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. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J) ASSETS (CONTINUED)

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 life 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 is reviewed on an annual basis.

The acquisition of, or internal development of, software is capitalised when the expenditure meets the definition and recognition criteria (identifiability, 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 \$1,500.

K) 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.

Where a liability line item combine amounts expected to be settled within twelve months and more than twelve months, the Commission has separately disclosed the amounts expected to be settled after more than twelve months.

Payables

Payables include creditors, accrued expenses, and employment on-costs.

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.

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 in accordance with

Treasurer's Instruction 11 *Payment of Creditor's Accounts*.

Employment benefit on-costs include superannuation contributions, payroll tax and workcover 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 balance date relates to any contributions due but not yet paid.

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.

Wages, salaries, annual leave and sick leave

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 twelve 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 recognised from the employees commencement date.

The Commission's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at 30 June 2009 on Commonwealth Government bonds that have maturity dates approximating the terms of the Commission's obligations.

Employee benefit on-costs

Employee benefit on-costs (payroll tax and superannuation) are recognised separately under payables.

Provisions

A provision is 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 balance sheet 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating leases

The Commission has entered into 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.

Insurance

The Commission has arranged, through various insurers, to insure all major risks of the Commission. There is no exposure in relation to workers compensation.

L) EVENTS AFTER BALANCE DATE

Where an event occurs after 30 June but provides information about conditions that existed at 30 June, adjustments are made to amounts recognised in the financial statements.

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

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 the 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 has not changed any accounting policies during 2008-09. The Commission has adopted the September 2007 version AASB 101 Presentation of Financial Statements including AASB 2007-8 and AASB 2007-10 (these standards make consequential amendments to other standards as a result of the revised AASB 101) – this includes the preparation of a single Statement of Comprehensive Income.

4 FINANCIAL RISK MANAGEMENT

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

The Ministerial Council of Energy in its advice of the approval of funding for 2008/2009 also advised it had agreed to fixed funding levels of 2009/10, 2010/11, 2011/12 of \$14 million, \$14.5 million and \$15 million respectively to assist with revenue certainty.

The Commission is exposed to funding/liquidity risk. This is managed through the working capital reserve established by the MCE in February 2007.

5 ACTIVITIES OF THE COMMISSION

The Commission operates in Australia from a single office in Sydney. The Commission's main function is to assess proposals for changes to the National Electricity Rules and the National Gas Rules and undertake reviews of aspects of the electricity and gas markets.

	2009 \$'000	2008 \$'000
6 INTEREST REVENUE		
Interest earned on bank accounts	373	455
Total interest revenues	373	455
7 OTHER REVENUE		
Recoveries from the Consumer Advocacy Panel *	207	–
Recoveries from the ATO	126	–
Total other revenue	333	–

* Recoveries from the Consumer Advocacy Panel for the provision of administrative support.

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FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$'000	2008 \$'000
8 CONTRIBUTIONS FROM PARTICIPATING JURISDICTIONS		
Operational funding	10,634	13,086
Working capital	–	16
Total contributions from participating jurisdictions	10,634	13,102

All contributions, with the exception of those received from the Victorian government, are treated as contributions covered by an appropriation. Contributions covered by an appropriation are not subject to the payment of GST.

Contributions received from the Victorian government totalled \$2,837,909 (2008: \$3,625,673).

Total contributions also include \$1,163,524 (2008: \$1,040,507) received from the South Australian Department of Transport, Energy and infrastructure (DTEI). These contributions included \$295,796 received in advance for the 2009/10 financial year.

	2009 \$'000	2008 \$'000
9 EMPLOYEE BENEFIT EXPENSES		
Salaries and wages	4,962	3,708
Long service leave	93	267
Annual leave	424	323
Employment on-costs – superannuation	413	301
Payroll and Fringe Benefits Tax	314	231
Relocation expenses	42	95
Total employee benefit expenses	6,248	4,925

Staff are appointed under common law contracts and are not employees under the South Australian *Public Sector Management Act 1994*. 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 in accordance with the South Australian Accounting Policy Framework for staff are as follows:

REMUNERATION OF EMPLOYEES

The number of employees whose remuneration received or receivable falls within the following bands:

	2009 NO.	2008 NO.
\$100,000 – \$110,000	5	2
\$110,001 – \$120,000	3	3
\$120,001 – \$130,000	–	–
\$130,001 – \$140,000	2	4
\$140,001 – \$150,000	2	1
\$150,001 – \$160,000	2	2
\$160,001 – \$170,000	3	1
\$170,001 – \$180,000	1	2
\$180,001 – \$190,000	–	–
\$190,001 – \$200,000	1	–
\$200,001 – \$210,000	1	–
\$210,001 – \$220,000	1	1
\$240,001 – \$250,000	–	–
\$250,001 – \$260,000	1	–
\$290,001 – \$300,000	–	1
\$310,001 – \$320,000	1	–
Total number of employees	23	17

The table includes all employees who received remuneration of \$100,000 or more during the year. Remuneration of employees reflects all costs of employment including salaries and wages, superannuation contributions, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was \$3,566,116 (2008: \$2,583,746). Remuneration of Commissioners is disclosed in Note 25.

	2009 \$'000	2008 \$'000
10 SUPPLIES AND SERVICES		
Property expenses	704	438
Information technology expenses	318	170
Accounting and audit expenses	227	309
Legal expenses	26	170
Project contractor and consultancy expenses	3,741	3,154
Other contractor and consultancy expenses	772	1,145
Administration expenses	341	357
Travel and accommodation expenses	391	234
Recruitment	177	256
Staff training	196	170
Other	129	79
Total supplies and services	7,022	6,482

The number and dollar amount of Consultancies paid/payable that fell within the following bands:

	NO.	2009 \$'000	NO.	2008 \$'000
Below \$10,000	6	40	6	20
Between \$10,000 and \$50,000	5	120	9	194
Above \$50,000	15	2,759	9	1,420
Total paid/payable to the consultants engaged	26	2,919	24	1,634

11 DEPRECIATION AND AMORTISATION EXPENSE

DEPRECIATION

Plant and equipment	25	27
IT Infrastructure	69	67
Leasehold improvements	3	44
Total depreciation	97	138

AMORTISATION

Intangibles	158	42
Total amortisation	158	42
Total depreciation and amortisation	255	180

	2009 \$'000	2008 \$'000
12 GRANTS AND SUBSIDIES		
Consumer Advocacy Panel grants	566	–
Total grants and subsidies	566	–

The Commission is responsible for providing the Panel with grant funding that relates to gas advocacy and the National Electricity Market Management Company (NEMMCO) is responsible for grant funding that relates to electricity funding. The grants include the full year 2008-2009 funding and the first quarter 2009-2010 funding which is in line with the Commission's funding.

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	2009 \$'000	2008 \$'000
13 NET LOSS ON DISPOSAL OF NON-CURRENT ASSETS		
PLANT AND EQUIPMENT		
Proceeds from disposal	–	–
Less net book value of assets disposed/written off	–	132
Net loss from disposal of plant and equipment	–	132
LEASEHOLD IMPROVEMENTS		
Proceeds from disposal	–	–
Less net book value of assets disposed/written off	–	201
Net loss from disposal of leasehold improvements	–	201
INTANGIBLE ASSETS		
Proceeds from disposal	–	–
Less net book value of assets disposed/written off	–	1
Net loss from disposal of intangible assets	–	1
TOTAL ASSETS		
Total proceeds from disposal	–	–
Less total value of assets disposed	–	334
Total net loss on disposal of assets	–	334

The majority of assets disposed of in 2008 were a result of the Commission terminating the lease on No 1 Margaret Street as title on these assets was held by the landlord.

	2009 \$'000	2008 \$'000
14 AUDITOR'S REMUNERATION		
Audit fees paid/payable to the SA Auditor-General's Department	32	22
Total Audit Fees – SA Government entities	32	22
OTHER SERVICES		
No other services were provided by the Auditor-General's Department.		
15 RECEIVABLES		
Funding receivable	1,336	3,889
Interest receivable	15	53
Prepayments	139	67
GST input tax recoverable	226	–
Total receivables	1,716	4,009

ALLOWANCE FOR DOUBTFUL DEBTS

As at 30 June 2009, there was no objective evidence that a receivable was impaired. Therefore the Commission has not recognised an allowance for doubtful debts.

INTEREST RATE AND CREDIT RISK

Receivables are raised for all government contributions due and for which payment has not been received. Receivables are normally settled within 30 days. Receivables are non-interest bearing. It is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. There is no concentration of credit risk. For maturity analysis of receivables and categorisation of financial instruments and risk exposure information please refer to Note 27.

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	2009 \$'000	2008 \$'000
16 PROPERTY, PLANT AND EQUIPMENT		
Plant and Equipment	180	177
Less: Accumulated depreciation	(59)	(34)
Total Plant and Equipment	121	143
IT Infrastructure	368	298
Less: Accumulated depreciation	(243)	(174)
Total IT infrastructure	125	124
Leasehold improvements	20	20
Less: Accumulated amortisation	(3)	–
Total Leasehold improvements	17	20
Total property, plant and equipment	263	287

IMPAIRMENT

There were no indications of impairment of property, plant and equipment and intangible assets at 30 June 2009.

RECONCILIATION OF NON CURRENT ASSETS

The following table shows the movement of non-current assets during 2008-09.

	2009 \$'000	2008 \$'000
PLANT AND EQUIPMENT		
Carrying amount at beginning of the year	143	190
Additions	3	112
Disposals	–	(132)
Depreciation	(25)	(27)
Carrying amount at the end of the year	121	143
IT INFRASTRUCTURE		
Carrying amount at beginning of the year	124	117
Additions	70	74
Depreciation	(69)	(67)
Carrying amount at the end of the year	125	124
LEASEHOLD IMPROVEMENTS		
Carrying amount at beginning of the year	20	244
Additions	–	21
Disposals	–	(201)
Depreciation	(3)	(44)
Carrying amount at the end of the year	17	20
TOTAL PROPERTY, PLANT AND EQUIPMENT		
Carrying amount at beginning of the year	287	551
Additions	73	207
Disposals	–	(333)
Depreciation	(97)	(138)
Carrying amount at the end of the year	263	287

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

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	2009 \$'000	2008 \$'000
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17 INTANGIBLE ASSETS

Computer software	1,927	484
Less: Accumulated amortisation	(254)	(95)
Total computer software	1,673	389

INTANGIBLE ASSETS

Carrying amount at beginning of the year	389	24
Additions	1,442	408
Disposals	-	(1)
Amortisation	(158)	(42)
Carrying amount at the end of the year	1,673	389

18 PAYABLES

CURRENT

Trade Creditors	30	-
Accrued expenses	947	1,097
Consumer Advocacy Panel grants payable	11	-
GST payable	101	485
Superannuation	-	56
Employment on-costs	67	50
Total current payables	1,156	1,688

NON-CURRENT

Employment on-costs	62	59
Total non-current payables	62	59

INTEREST RATE AND CREDIT RISK

Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying amount of payables approximates net fair value due to the amounts being payable on demand. For maturity analysis of payables and categorisation of financial instruments and risk exposure information please refer to Note 27.

19 EMPLOYEE BENEFITS

CURRENT

Annual leave	322	248
Accrued salaries and wages	156	95
Total current employee benefits	478	343

NON-CURRENT

Long term long service leave	363	338
Total non-current employee benefits	363	338

Total employee benefits	841	681
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20 OTHER LIABILITIES

Deferred rent expense liability	90	48
Total other liabilities	90	48

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	2009 \$'000	2008 \$'000
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21 PROVISIONS

NON-CURRENT

Provision for make good	20	20
Total non-current provisions	20	20

Reconciliation of provision for make good

Balance at the beginning of financial year	20	8
Reductions resulting from settlement without cost	-	(8)
Additional provisions recognised	-	20
Balance at end of the financial year	20	20

22 EQUITY

WORKING CAPITAL

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
Total Working Capital	2,017	2,017

Retained earnings	7,363	10,114
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Total Equity	9,380	12,131
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The Funding Agreement with Jurisdictions provides for the maintenance of a reserve to meet an adverse funding of budgeted expenditure or unexpected cash flows. Each State and Territory provides their portion of the funds for the Capital Reserve which is intended to be retained by the Commission for its lifetime.

23 UNRECOGNISED CONTRACTUAL COMMITMENTS

OPERATING LEASE COMMITMENTS

The Commission was party to an operating lease for office accommodation in the 2009 year. The lessor is Perron Investments Pty Ltd & Perpetual Trustee Company Limited. The lease is non-cancellable with a term of 7 years (expiring on 31 August 2014) with an option to renew of a further 3 years. Rent is payable on the first day of the month.

Commitments under the non-cancellable operating lease at the reporting date but not recognised as a liabilities are payable as follows:

	2009 \$'000	2008 \$'000
Within 1 year	487	468
More than 1 year but not later than 5 years	2,166	2,077
More than 5 years	97	672
Total operating lease commitments	2,750	3,217

The weighted average interest rate implicit in the lease is 4.25 %.

24 CONTINGENT ASSETS AND LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

25 REMUNERATION OF COMMISSIONERS AND COMMITTEE MEMBERS

Members who were entitled to receive remuneration for membership during the 2009 financial year were:

COMMISSIONERS

John Tamblyn (Chairperson)
Ilan Woodward
Liza Carver (resigned 31 August 2008)
John Ryan (appointed 1 September 2008)

AUDIT COMMITTEE

Glen Appleyard (appointed 9 November 2007)
John Tamblyn
Ilan Woodward

Remuneration of Commissioners reflects all costs of employment including salaries and wages, superannuation, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by Commissioners and Committee members for the year was \$723,940 (2008: \$700,477).

The number of Commissioners and Committee members whose remuneration received or receivable falls within the following bands:

	2009 NO.	2008 NO.
\$0 – \$10,000	1	1
\$20,001 – \$30,000	1	–
\$90,001 – \$100,000	1	–
\$110,001 – \$120,000	–	1
\$170,001 – \$180,000	–	1
\$180,001 – \$200,000	1	–
\$410,001 – \$420,000	–	1
\$420,001 – \$430,000	1	–
Total number of Commissioners and Committee members	5	4

26 STATEMENT OF CASH FLOW RECONCILIATION

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD:

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank. Cash and cash equivalents as at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	2009 \$'000	2008 \$'000
Statement of Cash Flows	7,897	9,942
Statement of Financial Position	7,897	9,942

RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO NET COST OF PROVIDING SERVICES:

Net cash provided by operating activities	(535)	5,936
Contributions from participating jurisdictions	(10,634)	(13,102)
Add/(less) non-cash items:		
Rent incentive amortisation expense	–	213
Depreciation and amortisation expense	(255)	(180)
Net loss on disposal of non-current assets	–	(334)

Movement in assets and liabilities

Increase/(decrease) in receivables	(2,292)	(1,534)
(Decrease)/increase in other assets	–	46
(Increase)/decrease in payables & other liabilities	491	(1,383)
Decrease /(increase) in employee benefits	(160)	(339)
Net cost of providing services	(13,385)	(10,677)

27 FINANCIAL INSTRUMENTS / FINANCIAL RISK MANAGEMENT

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.

CATEGORY OF FINANCIAL ASSET AND LIABILITIES	STATEMENT OF FINANCIAL POSITION	NOTE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
			2009 \$'000	2009 \$'000	2008 \$'000	2008 \$'000
FINANCIAL ASSETS						
Cash and cash equivalents	Cash and cash equivalents	26	7,897	7,897	9,942	9,942
Loans and receivables	Receivables ⁽¹⁾	15	1,351	1,351	3,942	3,942
Total financial assets			9,248	9,248	13,884	13,884
FINANCIAL LIABILITIES						
Financial liabilities	Payables ⁽¹⁾	18	977	977	945	945
Total financial liabilities			977	977	945	945

(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 contact as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost) except for employee on-costs which are determined via reference to the employee benefit liability to which they relate.

CREDIT RISK

Credit risk arises when there is the possibility of the Commission's debtors defaulting on their contractual obligations resulting in financial loss to the Commission. The Commission measures credit risk on a fair value basis and monitors risk on a regular basis.

The Commission has minimal concentration of credit risk. The Commission has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history. The Commission does not engage in any high risk hedging for its financial assets.

Allowances for impairment of financial assets is calculated on past experience and current and expected changes in client credit rating. For the year ended 30 June 2009 no allowance for impairment of financial assets was deemed necessary. The Commission does not hold any collateral as security to any of its financial assets.

The following table discloses the aging of financial assets, past due including impaired assets past due.

	AGEING ANALYSIS OF FINANCIAL ASSETS		
	PAST DUE BY		
	OVERDUE FOR < 30 DAYS \$'000	OVERDUE FOR > 60 DAYS \$'000	TOTAL \$'000
2009			
Not impaired			
Receivables	1,351	–	1,351
2008			
Not impaired			
Receivables	3,942	–	3,942

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

27 FINANCIAL INSTRUMENTS / FINANCIAL RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

The following table discloses the maturity analysis of financial assets and financial liabilities.

	TOTAL \$'000	LESS THAN 1 YEAR (\$'000)	1 – 5 YEARS (\$'000)	> 5 YEARS (\$'000)
MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES				
2009				
Financial assets				
Cash & cash equivalent	7,897	7,897	–	–
Receivables	1,351	1,351	–	–
Total financial assets	9,248	9,248	–	–
Financial liabilities				
Payables	977	977	–	–
Total financial liabilities	977	977	–	–
2008				
Financial assets				
Cash & cash equivalent	9,942	9,942	–	–
Receivables	3,942	3,942	–	–
Total financial assets	13,884	13,884	–	–
Financial liabilities				
Payables	945	886	59	–
Total financial liabilities	945	886	59	–

Liquidity risk – Liquidity risk arises where the Commission is unable to meet its financial obligations as they fall due. The continued existence of the Commission in its present form is dependent on Government policy in each of the National Electricity Market jurisdictions and on continuing contributions from participants for the Commission's administration and programs. Undisputed accounts are settled within 30 days from the date of the invoice or date the invoice is first received. In the event of a dispute, payment is made 30 days from resolution. The Commission's exposure to liquidity risk is insignificant based on past experience and current assessment of risk.

Market risk – The Commission's exposure to Market risk is insignificant based on past experience and current assessment of risk. There is no exposure to interest rate risk as there is no interest bearing liabilities. In addition, there is no exposure to foreign currency or other price risks.

Sensitivity disclosure analysis – A sensitivity analysis has not been undertaken for the interest rate risk as it has been determined that the possible impact on profit and loss or total equity from fluctuations in interest rates is immaterial.

ADMINISTERED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

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STATEMENT OF ADMINISTERED COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 \$'000	2008 \$'000
EXPENSES			
Remuneration of the Panel	A10	55	–
Administration expenses		207	–
Grant expenses		1,236	–
Transfers to the National Electricity Consumer Advocacy Panel		–	1,779
Total Expenses		1,498	1,779
INCOME			
Grant revenues	A5	2,372	–
Interest revenues		84	–
Receipts from the National Electricity Market Management Company Limited (NEMMCO)		–	1,779
Total Income		2,456	1,779
Net income from providing services		958	–
Net Result		958	–
Total comprehensive result		958	–

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

STATEMENT OF ADMINISTERED FINANCIAL POSITION

AS AT 30 JUNE 2009

	NOTE	2009 \$'000	2008 \$'000
CURRENT ASSETS			
Cash and cash equivalents	A6	2,565	–
Receivables	A7	226	–
Total current assets		2,791	–
Total assets		2,791	–
CURRENT LIABILITIES			
Payables	A8	227	–
Total current liabilities		227	–
Total liabilities		227	–
Net assets		2,564	–
ADMINISTERED EQUITY			
Retained earnings		2,564	–
Total administered equity		2,564	–
Unrecognised contractual commitments	A9	–	–

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

STATEMENT OF ADMINISTERED CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	RETAINED EARNINGS \$'000	TOTAL \$'000
Balance at 30 June 2007		–	–
Net result for 2007-08		–	–
Total Comprehensive Result for 2007-08		–	–
Balance at 30 June 2008		–	–
Net result for 2008-09		958	958
Total Comprehensive Result for 2008-09		958	958
Transactions with owners			
Contribution by owners	A12	1,606	1,606
Balance at 30 June 2009		2,564	2,564

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

STATEMENT OF ADMINISTERED CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 \$'000	2008 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash outflows			
Payments for suppliers and employees		(481)	–
Payment of grants and subsidies		(1,068)	–
Cash used in operations		(1,549)	–
Cash inflows			
Receipts from market participant fees		2,534	–
Interest received		82	–
Cash generated from operations		2,616	–
Net cash provided by operating activities	A11	1,067	–
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflows			
Contribution by owners	A12	1,498	–
Cash generated from financing		1,498	–
Net cash provided by financing activities		1,498	–
Net increase in cash and cash equivalents		2,565	–
Cash and cash equivalents at the beginning of the period		–	–
Cash and cash equivalents at the end of the period	A6	2,565	–

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

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AEMC 2008-2009 ANNUAL REPORT

A1 OBJECTIVES OF THE AEMC'S ADMINISTERED ACTIVITIES

The Consumer Advocacy Panel ("the Panel") was established on 1 July 2008 pursuant to the *Australian Energy Market Commission Establishment Act 2004*. From 1 July 2008, the Commission commenced providing administrative and financial service to the Consumer Advocacy Panel at its instruction. Subject to section 31 of the *Australian Energy Market Commission Establishment Act 2004*, the panel is not subject to direction by the Commission or the Ministerial Council on Energy in the performance of its functions.

Prior to 1 July 2008 the Commission received funds from the National Electricity Market Management Company Limited (NEMMCO) on behalf of the National Electricity Consumers Advocacy Panel. Administered activities for 2007-08 relate to the receipt and transfer of these funds to the National Electricity Consumers Advocacy Panel. The National Electricity Consumer Advocacy Panel was abolished on 30 June 2008 and its functions transferred to the Consumer Advocacy Panel.

The Panel has the following key functions under the Act:

- a) to identify areas of research that would be of benefit to consumers of electricity or natural gas (or both);
- b) to develop, and submit for the approval of the MCE, guidelines for the allocation of grants for consumer advocacy projects and research projects for the benefit of consumers of electricity or natural gas (or both);
- c) to prepare, and submit for the approval of the MCE, annual budgets for the allocation of grants for consumer advocacy projects and research projects for the benefits of consumers of electricity or natural gas (or both);
- d) to determine (subject to the approved guidelines and the approved budget) how grants for consumer advocacy projects and research projects and for the benefit of consumers of electricity or natural gas (or both) are to be allocated;
- e) to prepare, and submit for the approval of the MCE, guidelines for the assistance of applications for grants for the consumer advocacy projects for the benefits of consumers of electricity or natural gas (or both) are to be allocated;
- f) to prepare, and submit for the approval of the MCE, guidelines for the assistance of application for grants of the consumer advocacy projects and research projects for the benefit of consumers of electricity or natural gas (or both);
- g) to publish on the Panel's website and in other appropriate ways the results of research supported by a grant under Part 4 and other research of interest to consumers of electricity or natural gas (or both);
- h) to perform other functions conferred on the Panel by the National Electricity Laws or the Jurisdictional Energy Laws or by this or any other Act or law;
- i) to perform any other function that is reasonably incidental to any of the foregoing.
- j) Consider applications for funding to undertake advocacy in the interests of end-users of electricity in the national electricity market and, if considered appropriate, to provide funding where applications meet the Panel's funding criteria and application guidelines.
- k) The Panel approves grants to consumer advocacy organisations for advocacy and research projects that can be funded in tranches and over multiple financial years, so the Panel distinguishes between grants approved over the reporting period and funds distributed for grants.

A2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Commission accounting policies are contained in Note 2 'Summary of Significant Accounting Policies. With the exception of the policies identified below, policies outlined in Note 2 apply to both the Commission and administered financial statements.

GRANT INCOME

The Panel is funded by NEMMCO and the Commission. These funds are recognised as an asset and income when the Panel obtains control of the contributions and the income recognition criteria are met (i.e. the amount can be reliably measured and the flow of resources is probable).

All contributions have unconditional stipulations and therefore control is obtained when the agreement becomes enforceable i.e. the earlier of when the Panel has formally been advised that the contribution has been approved; agreement is executed and/or the contribution is received.

INTEREST REVENUE

Interest revenue is recognised when accrued.

GRANT EXPENSES

Grant expenses are recognised when the Panel has a present obligation to pay the grant and the recognition criteria are met. Generally a grant expense is recognised on achievement of the relevant milestones in the funding agreements between the applicants and the Panel.

ADMINISTRATION EXPENSES

The Panel's Executive Director and other staff are employed by the Commission as required by the *Australian Energy Market Commission Establishment Act 2004*. The cost of employing these staff is included in the balance of employee benefit expenses in the Statement of Comprehensive Income.

The Commission recovers the cost of employing these staff from the Panel. These payments are recognised in the Statement of Administered Comprehensive Income as part of 'administration expenses'.

Administration expenses also include accommodation and other charges incurred by the Commission and recovered from the Panel.

A2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Statement of Administered Financial Position and the Statement of Administered Cash Flows include cash on hand, deposits at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

INSURANCE

The Panel does not have a policy of professional indemnity insurance for its members. The Panel notes that under the Act as from 1 July 2008 members and staff of the Panel are not subject to personal liability for an act or omission in good faith in the performance actual or purported of a function or power associated with the activities of the Panel. There is no exposure in relation to workers compensation.

A3 FINANCIAL RISK MANAGEMENT

The continued existence of the Panel in its present form is dependent on the continuation of funding from the AEMC and NEMMCO. The provision of this funding is a statutory obligation of both the AEMC and AEMO, subject to the approval of a global budget by the Ministerial Council on Energy. The funding for the Panel for the 2009/2010 year was approved by the MCE in December 2008 as follows:

- \$2,195,294 for the electricity component funded by NEMCO.
- \$572,000 for the gas component funded by the AEMC.

A4 SEGMENT REPORTING

The Panel operates in Australia from premises provided by the Australian Energy Market Commission.

	2009 \$'000	2008 \$'000
A5 GRANT REVENUE		
Contributions received – NEMMCO	1,806	–
Contributions received – AEMC	566	–
Total grant revenue	2,372	–

A6 CASH AND CASH EQUIVALENTS

Cash at bank	2,565	–
Total cash and cash equivalents	2,565	–

A7 RECEIVABLES

Contributions receivable	221	–
Other	5	–
Total receivables	226	–

A8 PAYABLES

GST payable	35	–
Gas and electricity grants payable	167	–
Accruals	25	–
Total payables	227	–

A9 UNRECOGNISED CONTRACTUAL COMMITMENTS

Commitments incurred during the year and relating to approved applications for which the grant has not yet been paid are as follows:

Payable within 1 year	2,125	–
	2,125	–

Represents commitments for approved grant applications where the conditions for payment of the grant have not been met.

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AEMC 2008-2009 ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

A10 REMUNERATION OF THE PANEL

Members that were entitled to receive remuneration for membership of the Panel during the 2009 financial year were:

CONSUMER ADVOCACY PANEL

Francis Peach (Chairman)
Karen Chalmers-Scott
Bruce Connery
Catherine Cooper
Edward Russell

The number of Panel members whose remuneration received or receivable falls within the following bands:

	2009 NO.	2008 NO.
\$0 – \$10,000	4	–
\$10,001 – \$20,000	1	–
Total number of Panel members	5	–

Remuneration of Panel members reflects all costs of performing Panel duties including sitting fees and superannuation contributions. The total remuneration received by Panel members for the year was \$55,437.

A11 STATEMENT OF ADMINISTERED CASH FLOW RECONCILIATION

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD:

For the purposes of the Statement of Administered Cash Flows, cash includes cash on hand and at bank. Cash and cash equivalents as at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	2009 \$'000	2008 \$'000
Statement of Administered Cash Flows	2,565	–
Statement of Administered Financial Position	2,565	–

RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO NET INCOME FROM PROVIDING SERVICES:

Net cash provided by operating activities	1,067
---	-------

Movement in assets and liabilities

Increase/(decrease) in receivables	74	–
(Increase)/decrease in payables & other liabilities	(183)	–
Net income from providing services	958	–

A12 CONTRIBUTION BY OWNERS

The NECAP was abolished on 30 June 2008 and its assets and liabilities transferred to the Panel which included \$1.498 million cash, \$0.152 million receivables and \$0.044 million payables including employee benefit liabilities. The net result is \$1.606 million contribution by owners.

A13 FINANCIAL INSTRUMENTS / FINANCIAL RISK MANAGEMENT

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.

CATEGORY OF FINANCIAL ASSET AND LIABILITIES	STATEMENT OF FINANCIAL POSITION	NOTE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
			2009 \$'000	2009 \$'000	2008 \$'000	2008 \$'000
FINANCIAL ASSETS						
Cash and cash equivalents	Cash and cash equivalents	A6	2,565	2,565	–	–
Loans and receivables	Receivables	A7	226	226	–	–
Total financial assets			2,791	2,791	–	–
FINANCIAL LIABILITIES						
Financial liabilities	Payables ⁽¹⁾	A8	192	192	–	–
Total financial liabilities			192	192	–	–

(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 contact as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost) except for employee on-costs which are determined via reference to the employee benefit liability to which they relate.

CREDIT RISK

Credit risk arises when there is the possibility of the Panel's debtors defaulting on their contractual obligations resulting in financial loss to the Panel. The Panel measures credit risk on a fair value basis and monitors risk on a regular basis.

The Panel has minimal concentration of credit risk. The Panel has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history. The Panel does not engage in any high risk hedging for its financial assets.

Allowances for impairment of financial assets is calculated on past experience and current and expected changes in client credit rating. For the year ended 30 June 2009 no allowance for impairment of financial assets was deemed necessary. The Panel does not hold any collateral as security to any of its financial assets.

The following table discloses the aging of financial assets, past due including impaired assets past due.

	AGEING ANALYSIS OF FINANCIAL ASSETS		
	PAST DUE BY		
	OVERDUE FOR < 30 DAYS \$'000	OVERDUE FOR > 60 DAYS \$'000	TOTAL \$'000
2009			
Not impaired			
Receivables	226	–	226

A13 FINANCIAL INSTRUMENTS / FINANCIAL RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

The following table discloses the maturity analysis of financial assets and financial liabilities.

	TOTAL \$'000	LESS THAN 1 YEAR (\$'000)	1 – 5 YEARS (\$'000)	> 5 YEARS (\$'000)
MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES				
2009				
Financial assets				
Cash & cash equivalent	2,565	2,565	–	–
Receivables	226	226	–	–
Total financial assets	2,791	2,791	–	–
Financial liabilities				
Payables	192	192	–	–
Total financial liabilities	192	192	–	–

Liquidity risk – Liquidity risk arises where the Panel is unable to meet its financial obligations as they fall due. The continued existence of the Panel in its present form is dependent on Government policy in each of the National Electricity Market jurisdictions and on continuing contributions from participants for the Panel's administration and programs. Undisputed accounts are settled within 30 days from the date of the invoice or date the invoice is first received. In the event of a dispute, payment is made 30 days from resolution. The Panel's exposure to liquidity risk is insignificant based on a current assessment of risk.

Market risk – The Panel's exposure to Market risk is insignificant based on a current assessment of risk. There is no exposure to interest rate risk as there is no interest bearing liabilities. In addition, there is no exposure to foreign currency or other price risks.

Sensitivity disclosure analysis – A sensitivity analysis has not been undertaken for the interest rate risk as it has been determined that the possible impact on profit and loss or total equity from fluctuations in interest rates is immaterial.

NATIONAL ENERGY MARKET GOVERNANCE FRAMEWORK

COUNCIL OF AUSTRALIAN GOVERNMENTS (COAG)

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 Australian governments.

MINISTERIAL COUNCIL ON ENERGY (MCE)

The MCE was established by COAG in 2001 as the national policy and governance body for the Australian energy market (including electricity and gas). The Council's objectives, as agreed by COAG are:

- To provide national oversight and coordination of policy development to address opportunities and challenges facing Australia's energy sector into the future;
- To provide national leadership so that consideration of broader convergence issues and environmental impacts are effectively integrated into energy sector decision making.

The Council comprises Ministers with responsibility for energy within the Australian Government and all states and territories. The MCE may direct the AEMC to provide policy advice to the MCE, conduct a review into electricity or natural gas markets including the effectiveness of retail competition in these markets.

AUSTRALIAN ENERGY MARKET COMMISSION (AEMC)

The AEMC is responsible to the MCE for the performance of its functions. The key laws that confer functions on the AEMC are:

- the *Australian Energy Market Commission Establishment Act 2004* and its Regulations of South Australia;
- the National Electricity Law, set out in the National Electricity (South Australia) Act 1996 of South Australia and the relevant application Acts of each jurisdiction participating in the National Electricity Market;
- the National Gas Law, set out in the National Gas (South Australia) Act 2008 of South Australia and the relevant application Acts of all other Australian jurisdictions (except Western Australia at the time of writing this report).

The AEMC carries out its functions and powers in accordance with this legislation. The AEMC's key functions and powers in relation to the National Electricity Market, including its review functions, are set out in Part 4 of the National Electricity Law. The Rule making process is set out in Part 7 of the National Electricity Law. The AEMC's key functions and powers in relation to the National Gas Market, including its review functions, are set out in Part 2 of Chapter 2 of the National Gas Law. The Rule making process is set out in Chapter 9 of the National Gas Law.

The AEMC was established in July 2005 and the MCE is progressively implementing the full range of functions intended for us. Our role has expanded since 2005 as follows:

- On establishment we were responsible for rule making in regard to electricity wholesale and transmission regulation in the National Electricity Market. We were also responsible for market development and providing advice to the MCE in relation to the NEM.
- In January 2008 our role expanded to include the power to make rules in relation to economic regulation of electricity distribution network services. On 1 July 2008 our role expanded again to include the economic regulation of gas transmission and distribution services; access to natural gas pipeline services, and other elements of broader natural gas markets. We received gas retail functions on 1 July 2009 in the AEMO package of amendments to the NGL and NGR.
- On 1 September 2009, sections 1 and 2 of the *National Gas Access (WA) Act 2009* commenced operation. The remainder of the Act is yet to commence operation. Once the Act commences operation, Western Australia will be a participating jurisdiction for the purposes of the National Gas Law, but only to the extent set out in the Act.

From 1 July 2008 the governance reforms for natural gas have followed the same model as that adopted for electricity market reform. This reform model separates high level policy direction, rule making, economic regulation and rule enforcement.

To assist in the performance of its operations, the AEMC has entered into a Memorandum of Understanding (MOU) with: the AER and the Australian Competition & Consumer Commission (ACCC); the National Competition Council (NCC); and AEMO.

AUSTRALIAN ENERGY REGULATOR (AER)

Established July 2005. The AER performs the economic regulatory, compliance and enforcement functions in the NEM under the National Electricity Law and National Electricity Rules. The AER is an independent statutory body and a constituent part of the ACCC.

AUSTRALIAN COMPETITION & CONSUMER COMMISSION (ACCC)

The ACCC is a national statutory body responsible for promoting competition and fair trading and providing consumer protection to enhance the welfare of Australians. The ACCC enforces the *Trade Practices Act 1974*. The MOU between the AEMC, the ACCC and the AER sets out arrangements to promote effective cooperation, communication and coordination between the bodies in the performance of their roles. In particular, the MOU seeks to promote early consultation on any rule change proposals on enforcement and economic regulation issues and competition issues.

NATIONAL COMPETITION COUNCIL (NCC)

The NCC was established to act as a policy advisory body overseeing the implementation of the National Competition Policy (NCP). The MOU between the AEMC and the NCC aims to promote effective communication, cooperation and coordination between the bodies in the performance of their roles. In particular, the MOU sets out arrangements to promote cooperation between the bodies on applications for certification of State or Territory access regimes.

AUSTRALIAN ENERGY MARKET OPERATOR (AEMO)

AEMO was established by COAG and started operations on 1 July 2009. It has merged the operations of six founding entities including the former; National Electricity Market Management Company (NEMMCO), Victorian Energy Networks Corporation (VENCorp), Electricity Supply Industry Planning Council (ESIPC), Retail Energy Market Company (REMCO) (SA operations as of 1 October 2009), Gas Market Company (GMC), Gas Retail Market Operator (GRMO). AEMO draws together the functions carried out by these

organisations, incorporating management of the NEM and the retail and wholesale gas markets of eastern and southern Australia. It oversees system security of the NEM electricity grid and the Victorian gas transmission network.

STATE AND TERRITORY REGULATORS

Independent regulators located within each State and Territory jurisdiction are tasked with overseeing economic regulation of certain essential public services including electricity and gas retail prices in some jurisdictions.

EXTERNAL CONSULTANTS

Table 1: Panel Providers

COMPANY	DESCRIPTION OF WORK	\$
ACIL Tasman Pty Ltd	Review of Impacts on the NEM of Climate Change Policies	76,875
CRA International Pty Ltd	Tasmanian Frequency Standards Review 2008 Reliability Panel Advice – Review of Impacts of Climate Change Policies Review of Demand Side Participation in the NEM	225,351
Energy Market Consulting Associates Pty Ltd	Review of Impacts on the NEM of Climate Change Policies	95,500
Firecone Ventures Pty Ltd	Review of Impacts on the NEM of Climate Change Policies	202,425
Frontier Economics Pty Ltd	Review of Impacts on the NEM of Climate Change Policies	276,468
LECG Limited	Review of Effectiveness of Competition in Energy Retail Markets – South Australia	83,321
McLennan Megasanik Associates Pty Ltd	Review of Impacts on the NEM of Climate Change Policies	55,802
NERA Economic Consulting	Victorian jurisdiction derogation (Advanced metering installation roll out) Review of Demand Side Participation in the NEM WACC – Alignment of Reviews Strategic Paper Compensation for Administered Price Caps Review of Impacts on the NEM of Climate Change Policies	441,490
Network Advisory Services Pty Ltd	Review of Impacts on the NEM of Climate Change Policies	46,885
Roam Consulting Pty Ltd	Review of Demand Side Participation in the NEM Review of Impacts on the NEM of Climate Change Policies	175,608
The Allen Consulting Group Pty Ltd	Review of Effectiveness of Competition in Energy Retail Markets – South Australia Review of Demand Side Participation in the NEM Demand Management Review of Impacts on the NEM of Climate Change Policies	273,466
The Brattle Group	Total Factor Productivity	175,152

Table 2: Non-Panel Providers

COMPANY	DESCRIPTION OF WORK	\$
2nd Road Pty Ltd	Document design	3,500
Carbon Market Economics	Review of Impacts on the NEM of Climate Change Policies	21,413
Concept Economics Pty Limited	Compensation Guidelines CRR Rule Change 3 – VoLL and CPT	177,335
Concept Consulting Group Ltd	Compensation Guidelines Panel Member Fees	3,795
Deloitte	Futures Offset Arrangement	230,889
Economic Insights Pty Ltd	Total Factor Productivity	152,350
EGR Consulting Ltd	Review of Demand Side Participation in the NEM	12,000
Farrier Swier Consulting Pty Ltd	Compensation Guidelines Panel Member Fees	9,545
KEMA Consulting	National Transmission Planner – Reliability Standards Review	27,480
Meyrick and Associates	WACC: Parameter Values (Equity Beta and Gamma) Total Factor Productivity	12,364
Oakley Greenwood Pty Ltd	Compensation Guidelines Panel Member Fees	9,806
Sinclair Knight Merz	Review of Impacts on the NEM of Climate Change Policies	117,220
The Patterson Group	Office Design & Project Management	7,920
University of Cambridge	Review of Impacts on the NEM of Climate Change Policies	5,610

MCE STATEMENTS OF POLICY PRINCIPLES

In 2008-2009 there were no Statements of Policy Principles made by the Ministerial Council on Energy.

LAST RESORT PLANNING POWER

The AEMC has a power under clause 5.6.4 of the National Electricity Rules to direct one or more registered participants in the NEM to:

- identify a potential transmission project and apply the *regulatory investment test for transmission* to that project; or
- to apply the *regulatory investment test for transmission* to a potential transmission project identified by the AEMC.

This is known as the last resort planning power and its purpose is to ensure timely and efficient inter-regional transmission investment for the long term interests of consumers of electricity. The last resort planning power is only applicable to projects and problems relating to constraints in national transmission flow paths.

The AEMC did not exercise its last resort planning power in the reporting period.

AEMO'S USE OF POWERS OF DIRECTION

The Australian Energy Market Operator (AEMO) made 14 directions from 1 July 2008 to 30 June 2009 in relation to power system security under clause 4.8.9(a) of the National Electricity Rules. Those directions were:

DATE	REGION	DIRECTIONS
11 November 2008	Victoria	1
12 November 2008	Victoria	1
	New South Wales	1
13 November 2008	Victoria	1
22 January 2009	Queensland	2
23 January 2009	Queensland	2
30 January 2009	Victoria	2
	South Australia	1
31 January 2009	South Australia	1
17 June 2009	South Australia	1
18 June 2009	South Australia	1

USE BY REGISTERED PARTICIPANTS OF INSPECTION AND TESTING RIGHTS

From 1 July 2008 to 30 June 2009, AEMO was not informed of any inspections conducted under clause 5.7.1, or any tests conducted under clause 5.7.2 of the Rules.

The AEMC Annual Report 2008-2009 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 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 [Statutory Reports page 79](#)
 - b) the AEMC's relationship to other bodies involved in the administration of National Energy Laws [Statutory Reports page 79](#)
 - c) the membership and organisation of the AEMC [Governance pages 37-41](#)
 - d) the AEMC's strategic plans and the relationship of the plans to objectives set out in the National Energy Laws [Governance pages 37-41](#)
 - e) the AEMC's activities and their efficiency and effectiveness [Chairman's Report page 5](#)
[Chief Executive's Report page 8](#)
 - f) the AEMC's financial affairs [Financial Statements page 47](#)
 - g) disclosures made by Commissioners under section 22 of the Act [Governance page 37](#)
 - 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 [Financial Statements page 60](#)
 - 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 [Statutory Reports page 80](#)
 - j) the occupational health, safety and rehabilitation programs of the AEMC and their effectiveness [Governance page 45](#)
 - k) any instances of fraud in the operations of the AEMC and the strategies implemented to prevent and control fraud [Governance page 41](#)

- 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. [Rule Making pages 11-17](#)
 - 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 [Statutory Reports page 81](#)
 - 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 [Rule Making pages 11-17](#)
 - B) the stages at which proposed Rules are in the Rule making procedure, and [Rule Making pages 11-17](#)
 - C) decisions of the AEMC not to proceed with requests for Rules, and [Rule Making pages 11-17](#)
 - D) Rules made, and [Rule Making pages 11-17](#)
 - E) Rules that have come into operation [Rule Making pages 11-17](#)
 - IV. MCE directed reviews and AEMC initiated reviews under the National Electricity Law [Market Reviews pages 18-31](#)
 - V. Market development functions [Our role in the energy market pages 10-31](#)
 - VI. Recommendations made by the AEMC for the MCE to request the making of Rules [Rule Making pages 11-17](#)
 - VII. The composition and activities of the Reliability Panel and of any other panels or committees that have been established by the AEMC [Expert Panels pages 32-35](#)
 - VIII. AEMO's use of powers of direction in relation to power station security under clause 4.8.9(a) of the Rules [Statutory Reports page 81](#)
 - IX. The use by Registered Participants of inspection and testing rights under clauses 5.7.1 and 5.7.2 of the Rules [Statutory Reports page 81](#)

- X. The extent and effectiveness of demand side participation in the national electricity market, including measures that could be undertaken to enhance demand side participation in the national electricity market [Market Reviews pages 18-31](#)
- 2) The AEMC's report must include its audited financial statements for the financial year and the Auditor-General's report on the financial statements. [Financial Statements pages 47-78](#)
 - Include as a part of the AEMC Annual Report the Consumers Advocacy Panel's report. The Panel's accounts must also be included. [Appendix One page 84](#)

ACCC	Australian Competition & Consumer Commission
AEMA	Council of Australian Governments Australian Energy Market Agreement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator (established 1 July 2009). AEMO consists of the following six founding entities: National Electricity Market Management Company (NEMMCO); Victorian Energy Networks Corporation (VENCorp); Electricity Supply Industry Planning Council (ESIPC); Retail Energy Market Company (REMCO); Gas Market Company (GMC); Gas Retail Market Operator (GRMO).
AER	Australian Energy Regulator
COAG	Council of Australian Governments
Commission	See AEMC
Derogation	An exemption from a Rule for an individual or organisation (Participant Derogation) or State or Territory (Jurisdictional Derogation)
Expedited rule change process	Proponents may request a proposal be considered through a shortened rule change process (urgent rules and non-controversial rules under section 96 of the NEL)
Jurisdiction	An area over which legal authority extends – Australian State, Territory or Commonwealth
MCE	Ministerial Council on Energy
NCC	National Competition Council
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
NGL	National Gas Law
NGM	National Gas Market
NGR	National Gas Rules

APPENDICES

APPENDIX 1 – CONSUMER ADVOCACY PANEL ANNUAL REPORT 2008-2009

The following report is the report of the Consumers Advocacy Panel published in accordance with the provisions of the *Australian Energy Market Commission Establishment Act 2004* of South Australia as amended.

The Consumer Advocacy Panel is an independent body and as such its accounts are not consolidated into the accounts of the AEMC.

CONSUMER ADVOCACY PANEL

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2009

ABN 42 203 580 500

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CONSUMER ADVOCACY PANEL

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2009

A. INTRODUCTION

The functions and objectives of the Consumer Advocacy Panel (the Panel) are specified in the *Australian Energy Market Establishment Act 2004* (the Act).

The Panel makes funding grants for electricity and natural gas customer advocacy and research. In doing so, it must seek to promote the interests of all consumers of electricity or natural gas – while paying particular regard to benefiting small to medium consumers.

The Panel was established on 1 July 2008. The predecessor organisation, the National Electricity Consumers Advocacy Panel, ceased operations on 30 June 2008 – its assets, rights and liabilities were transferred to the Australian Energy Market Commission (AEMC) for administration on behalf of the Panel pursuant to the Act.

This 2008/09 Report from the Panel satisfies requirements in Part 4 (Section 47) of the Act.

The Panel's 2008/09 financial statements will be included in the AEMC's financial statements, tabled in the South Australian Parliament, and subsequently published.

B. PANEL REVENUE IN 2008/09

In 2008/09 the Panel's total revenue was \$2,455,778 (ex GST):

- \$1,805,860 via the National Electricity Market Management Company (NEMMCO) from fees charged to certain market participants, mainly electricity retailers, for expending on electricity advocacy and research projects and the portion of the Panel's administrative costs that relate to electricity – in future years, this funding will come from the Australian Energy Market Operator (AEMO)
- \$565,588 via the AEMC from participating jurisdictions, for expending on gas advocacy and research projects and the portion of the Panel's administrative costs that relate to gas – in future years, a portion of this funding will come from AEMO
- \$84,330 interest.

C. GRANTS MADE IN 2008-09

The Panel makes the following types of advocacy and research grants:

- consumer advocacy projects for the benefit of consumers of electricity
- consumer advocacy projects for the benefit of consumers of natural gas

- projects in research or consumer advocacy for the joint benefit of consumers of electricity and consumers of natural gas
- research projects for the benefit of consumers of electricity
- research projects for the benefit of consumers of natural gas

In 2008/09, the Panel received 55 applications for funding, 44 of which were approved at 30 June 2009.

The number of applicant organisations was 24 – up from 12 in 2007/8 – including a number of organisations which had not previously applied for Panel funding.

The diversity of the grants made by the Panel demonstrates the scope of national energy market reform.

The Panel believes the funding it allocated in 2008/2009 fully complied with the principles set out in Schedule 1 of the *Australian Energy Market Commission Regulations 2005*.

Figure 1: Grants made by project type 2008/09 (ex GST)

GRANT TYPE	GRANTS MADE	FUNDING ALLOCATED
Advocacy projects		
• Electricity	17	\$1,050,463 ¹
• Gas	9	\$194,830
• Joint	14	\$1,128,526 ²
Panel-initiated research	2	\$50,000
Stakeholder-initiated research	2	\$96,400
TOTAL	44	\$2,520,219

Figure 2: Amounts and customer types 2008/09 vs 2007/08

	BUSINESS		DOMESTIC		TOTAL	
	08/09	07/08	08/09	07/08	08/09	07/08
\$0 – \$50,000	15	16	11	9	26	26
\$50,001 – \$100,000	3	1	8	2	11	2
\$100,000 +	3	1	4	3	7	4

1 Of these, two grants were funded to a total amount of \$122,440 that will begin after 1 July 2009

2 Of these, eight grants were funded to a total amount of \$1,024,566 that will begin after 1 July 2009

D. ACTIVITIES UNDERTAKEN IN CONSUMER ADVOCACY AND RESEARCH PROJECTS APPROVED FOR FUNDING IN 2008/09

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS	APPROVED/ REJECTED	AMOUNT FUNDED
305	Electricity Advocacy	Energy Users Association of Australia (EUAA)	Impacts of an emissions trading scheme on the National Electricity Market (NEM)	<ul style="list-style-type: none"> Report on the results of the modelling and strategic analysis of the impacts of the Carbon Pollution Reduction Scheme (CPRS) & 20% Renewable Energy Target (RET) EUAA submissions to the Parliamentary inquiries into both the CPRS and RET draft legislation Input to the Australian Energy Market Commission (AEMC) climate change review Using the report to support advocacy with stakeholders who could provide leverage 	A	\$146,000.00
315	Electricity Advocacy	Australian Council of Social Service (ACOSS)	Travel costs for consumer representatives on the National Smart Meter Working Groups 2008/9	<ul style="list-style-type: none"> Representation of small end-user views in the range of Working Groups 	A	\$35,991.00

D. ACTIVITIES UNDERTAKEN IN CONSUMER ADVOCACY AND RESEARCH PROJECTS
APPROVED FOR FUNDING IN 2008/09

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS	APPROVED/ REJECTED	AMOUNT FUNDED
319	Electricity Advocacy	Major Energy Users Inc (EMRF, ECCSA, EUCV)	Australian Energy Regulator's (AER's) review of Weighted Average Cost of Capital (WACC) for transmission and distribution networks	<ul style="list-style-type: none"> • Response to AER Issues Paper and Draft Decision • Presentation at AER Public Forum 	A	\$39,904.00
321	Electricity Advocacy	Major Energy Users Inc (Electricity Consumers Coalition of South Australia)	Respond to ElectraNet appeal to Australian Competition Tribunal (ACT) over AER's decision of 2008	<ul style="list-style-type: none"> • Preparation for and attendance at ACT hearings 	A	\$27,952.00
323	Electricity Advocacy	Energy Users Association of Australia (EUAA)	AER review of WACC for transmission and distribution networks	N/A	R	Duplicated another grant
324	Electricity Advocacy	Total Environment Centre	Role of the NEM in responding to the CPRS and linkages to demand management (DM): the small consumer and environmental view	<ul style="list-style-type: none"> • Report for submission to AEMC climate change and demand-side participation (DSP) reviews • Forum with key stakeholders on the NEM and its interaction with climate change policies • Advocacy, including submissions, letters, media releases and meetings with Energy Ministers, Environment Ministers and the Minister for Climate Change and Water. 	A	\$67,172.00
332	Electricity Advocacy	Ethnic Communities Council of New South Wales	Advocacy for small business in NEM national smart metering program	<ul style="list-style-type: none"> • Submissions on 2008 Pilots/Trials Status Report & Pilots Scenarios Working Paper • Attend 6 workshops • A mid-term progress report • A detailed advocacy review report on the completion of the project 	A	\$12,000.00
334	Electricity Advocacy	MS Australia	Contribute to survey data analysis in order to inform advocacy to increase energy rebates/ concessions	<ul style="list-style-type: none"> • Data analysis and publication of the survey data 	A	\$5,000.00

D. ACTIVITIES UNDERTAKEN IN CONSUMER ADVOCACY AND RESEARCH PROJECTS
APPROVED FOR FUNDING IN 2008/09

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS	APPROVED/ REJECTED	AMOUNT FUNDED
335	Electricity Advocacy	St Vincent de Paul Society Australia Inc	Interval meters and implications for the National Energy Customer Framework (NECF), Customer Service Obligations (CSOs) and jurisdictional consumer protections	<ul style="list-style-type: none"> One national and four reports specific to each state (Victoria, South Australia, New South Wales and Queensland) consumer protection framework, and consultation with the consumer groups in that jurisdiction Participation in relevant AEMC reviews on impact of climate change and DSP Participation in AER price determination for interval meters 	A	\$93,700.00
336	Electricity Advocacy	Monash University & Foundation for Effective Markets and Governance	Attaining optimal carbon abatement rules through consumer advocacy : learning from the European experience on energy regulation	<ul style="list-style-type: none"> Briefing papers and submissions in response to AEMC papers arising from its review of the NEM in light of climate change policies and DSP 	A	\$100,000.00
337	Electricity Advocacy	Social Justice Initiative, University of Melbourne	Investigation of the impacts of the national rollout of smart meters on consumers	<ul style="list-style-type: none"> Publication of research – working papers, discussion papers, conference papers, and journal articles – into the impact that energy pricing initiatives will have on consumer behaviour and how these impacts will affect social equity and inclusion Proposal of a number of recommendations governing pricing structures in different energy jurisdictions 	A	\$53,529.50
338	Electricity Advocacy	Energy Users Association of Australia (EUAA)	Tasmania's newly contestable commercial and industrial electricity customers NEM readiness	N/A	R	Did not meet funding criteria
340	Electricity Advocacy	Queensland Council of Social Service (QCOSS)	Attendance at NEMMCO course	<ul style="list-style-type: none"> Improved staff understanding of NEM structure and key processes contributing to submissions on a number of electricity related reviews and processes Contribution to small end user policy position discussions and submissions Ensure that the interests of domestic small end users are represented in distribution determinations 	A	\$3,774.00
344	Electricity Advocacy	Queensland Council of Social Service (QCOSS)	Residential consumers and the AER Queensland Distribution Determination 2010-2015	<ul style="list-style-type: none"> Submission on Energex and Ergon Energy regulatory proposals Submission on AER draft determination decisions Attend public forums in relation to Energex and Ergon regulatory proposals and draft determination decision 	A	\$45,400.00
349	Electricity Advocacy	The Retailers Association	(RESCUE) Retailers Electricity Supply Chain Under Enquiry Project	N/A	deferred	

D. ACTIVITIES UNDERTAKEN IN CONSUMER ADVOCACY AND RESEARCH PROJECTS
APPROVED FOR FUNDING IN 2008/09

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS	APPROVED/ REJECTED	AMOUNT FUNDED
360	Electricity Advocacy	Goanna Energy	Issues facing Tasmania's newly contestable electricity customers	Project report that will: <ul style="list-style-type: none"> • Address issues that affect the introduction of contestability in Tas and limit the ability of contestable customers to gain the benefits of retail competition • Make suggestions for the ongoing advocacy and education role of these bodies • Consider ways to enhance the attractiveness of the Tasmanian market to new retailers 	A	\$47,600.00
362	Electricity Advocacy	Allan Driver	AER Victorian advanced metering infrastructure (AMI) price review	Paper providing: <ul style="list-style-type: none"> • Comparison of distribution businesses' initial metering services prices that took effect from 1 January 2009 and of CAPEX & OPEX details • Briefing paper on AER draft determination • Attendance at AER public forum • Briefing paper for consumer groups on AER determination. • Action plan for consumer groups to consider for 2011 charges 	A	\$50,000.00
298	Consumer-initiated electricity research	Major Energy Users Inc (EMRF, ECCSA, EUCV)	NEM Rule change proposal to mitigate the exercise of generator market power	<ul style="list-style-type: none"> • Report on mechanisms used in electricity markets in other countries to limit the exercise of market power by generators 	A	\$38,400.00
322	Gas Advocacy	Energy Users Association of Australia (EUAA)	BG Group PLC Proposed Acquisition of Origin Energy Limited	<ul style="list-style-type: none"> • Submission to the ACCC on the market impacts of the merger for users in Queensland specifically, and on the east coast of Australia. • Advocacy to ACCC on the impact of the proposed takeover 	A	\$34,000.00
325	Gas Advocacy	Energy Users Association of Australia (EUAA)	Gas Market Leaders Group Short-term Trading Market (STTM) – Steering Committee participation	Specific output by participation in the Steering Group and Working Group including: <ul style="list-style-type: none"> • Regular reports to EUAA Executive Director, Board and members on progress and strategy • A midway 'milestone' report that will be made available to the Panel • A final assessment report, with recommendations for further actions 	A	\$41,000.00
326	Gas Advocacy	Energy Users Association of Australia (EUAA)	Gas Market Leaders Group Gas Statement of Opportunities	<ul style="list-style-type: none"> • Submission to Gas Market Leaders Group 	A	\$11,550.00

D. ACTIVITIES UNDERTAKEN IN CONSUMER ADVOCACY AND RESEARCH PROJECTS
APPROVED FOR FUNDING IN 2008/09

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS	APPROVED/ REJECTED	AMOUNT FUNDED
327	Gas Advocacy	Major Energy Users Inc (MEU)	National Competition Council (NCC) preparation of a guide to gas pipeline owners regarding light regulation of determinations	• Submission to NCC	A	\$7,840.00
328	Gas Advocacy	Major Energy Users Inc (MEU)	NCC review of the application to convert full regulation of Moomba-Sydney pipeline to light handed regulation	• Submission to NCC	A	\$7,840.00
329	Gas Advocacy	Energy Users Association of Australia (EUAA)	Submission to ACCC re proposed acquisition of Sunshine Gas by Queensland Gas Company	• Submission to ACCC	A	\$9,000.00
339	Gas Advocacy	Energy Users Association of Australia (EUAA)	Queensland LNG exports and likely customer impact	• Report covering the likely impacts of LNG export based on Coal Seam Gas (CSG) and associated strategic and policy implications for local gas users	A	\$58,000.00
342	Gas Advocacy	Major Energy Users Inc (MEU)	National Gas Market advocate	N/A	R	New funding approach applied
355	Gas Advocacy	Major Energy Users Inc (MEU)	Response to Energy Security Working Group discussion paper	• Submission to discussion paper	A	\$6,400.00
359	Gas Advocacy	Major Energy Users Inc (MEU)	Advocacy relating to development of new gas STTM April – June 09	• Participation in working groups	A	\$19,200
330	Joint Advocacy	Major Energy Users Inc (MEU)	AEMC 's review of energy market frameworks in light of climate change policies	<ul style="list-style-type: none"> • Written submissions to the AEMC • Dialogue with AEMC officers and commissioners • Briefing consumer advocates who are members of the AEMC Advisory Committee 	A	\$56,840.00
331	Joint Advocacy	Energy Users Association of Australia (EUAA)	AEMC's review of energy market frameworks in light of climate change policies	<ul style="list-style-type: none"> • Submissions to the AEMC on each of the major discussion papers • Presentation at a public forum in Feb 2009 • Briefing and support for EUAA member of AEMC Advisory Committee 	A	\$62,000.00

D. ACTIVITIES UNDERTAKEN IN CONSUMER ADVOCACY AND RESEARCH PROJECTS
APPROVED FOR FUNDING IN 2008/09

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS	APPROVED/ REJECTED	AMOUNT FUNDED
333	Consumer-initiated joint research	Choice	NEM energy efficiency - retailers' role in energy service provision	<ul style="list-style-type: none"> • Design and assessment of current and potential systems, model policies and practices and/or innovative programs to be adopted by energy retailers to promote household energy efficiency • Subject to research findings, development of policies to increase number of energy services offered by energy retailers • Rule changes reducing barriers and increasing incentives for energy retailers 	A	\$58,000.00
347	Joint Advocacy	Public Interest Advocacy Centre (PIAC)	Review of the NECF Exposure draft law and rules	<ul style="list-style-type: none"> • Public report examining proposed legislation for the NECF draft law and rules 	A	\$18,000.00
357	Joint Advocacy	Major Energy Users (MEU)	Submissions to Dept of Resources, Energy and Tourism (DRET) Energy White Paper	<ul style="list-style-type: none"> • Submissions to DRET on each of the discussion papers 	A	\$21,600.00
358	Joint Advocacy	Consumer Action Law Centre	National Consumer Roundtable participation in NECF workshops	<ul style="list-style-type: none"> • Consumer advocates' travel to the workshops convened by the Retail Policy Working Group to discuss the NECF draft law and rules 	A	\$9,370.00
361	Joint Advocacy	IRS Pty Ltd	Small business issues and problems	<ul style="list-style-type: none"> • Advocacy strategies to facilitate small business input to NEM policy and regulatory decisions 	A	\$50,000.00
363	Joint Advocacy	UnitingCare Wesley Adelaide	NEM advocacy	<ul style="list-style-type: none"> • Submissions to a range of policy and regulatory processes (NECF, AER's SA distribution determination, Energy White Paper) • Web-based tool to compare core consumer information across jurisdictions • 10 local level forums and 4 Capital city forums in at least 4 States / Territories • At least 2 email reference groups to be established within the UnitingCare network 	A	\$86,150.00
364	Panel-initiated gas research	Engineroom consulting	Gas pricing	<ul style="list-style-type: none"> • Report on the composition of gas prices and possible future gas price directions under a range of plausible scenarios • Seminar on report findings for consumer stakeholders 	A	\$35,000.00
365	Panel-initiated joint research		NSW and Queensland rural consumer issues	<ul style="list-style-type: none"> • Carried over to 2009/10 research agenda 	Deferred	

D. ACTIVITIES UNDERTAKEN IN CONSUMER ADVOCACY AND RESEARCH PROJECTS
APPROVED FOR FUNDING IN 2008/09

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS	APPROVED/ REJECTED	AMOUNT FUNDED
366	Panel-initiated joint research	Etrog Consulting	Stakeholder forum to map consumer energy issues 2009-2014	<ul style="list-style-type: none"> • Development of structure for, and facilitation of Stakeholder Forum • Report on priority consumer energy issues 	A	\$15,000.00
341	Joint Advocacy	Major Energy Users Inc (MEU)	NEM electricity advocate	<p>Contributions (submissions and/or lobbying activities) in relation to following processes:</p> <ul style="list-style-type: none"> • AER's review of South Australian electricity distribution prices • AER's review of Victorian electricity distribution prices • AER's review of New South Wales gas distribution prices • Department of Energy, Resources & Tourism development of Energy White Paper • Development of National Gas Market, including short-term trading market • Economic Regulatory Authority review of West Australian gas distribution prices • Rule changes arising from AEMC review of national energy market framework in light of climate change policies 	A	\$200,000.00
345	Joint Advocacy	Tasmanian Council of Social Service	Energy research and advocacy	<ul style="list-style-type: none"> • Submissions and, as appropriate, representations to decision-makers in relation to NECF, AEMC review of NEM in light of climate change, development of CPRS and National Strategy for Energy Efficiency, Commonwealth White Paper • Input to development of Tasmanian decisions, including Framework for Action on Climate Change, review of the introduction of full retail competition in Tasmania and feed-in tariffs • Building capacity of organisation to advocate effectively on NEM issues 	A	\$39,200.00
346	Joint Advocacy	Energy Users Association of Australia (EUAA)	NEM advocate	N/A	R	New funding approach applied
350	Joint Advocacy	Ethnic Communities Council of NSW	NEM advocate 2009/10	<ul style="list-style-type: none"> • Submissions to decisions pertaining to the NECF, AEMC review of NEM in light of climate change and DSP and Commonwealth White Paper 	A	\$24,100.00

D. ACTIVITIES UNDERTAKEN IN CONSUMER ADVOCACY AND RESEARCH PROJECTS
APPROVED FOR FUNDING IN 2008/09

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS	APPROVED/ REJECTED	AMOUNT FUNDED
351	Electricity Advocacy	Total Environment Centre	NEM advocacy 2009/10	<ul style="list-style-type: none"> • Submissions and lobbying to processes pertaining to the Smart Meter Stakeholder Working Group, NECF, AEMC review of NEM in light of climate change and DSP and Commonwealth White Paper, as well as other related reviews • Building capacity of consumers, TEC and consumer and environmental organisations to improve the utilisation of demand management and distributed generation 	A	\$98,340.00
356	Electricity Advocacy	Alternative Technology Association	NEM advocacy 2009/10	<ul style="list-style-type: none"> • Submissions and lobbying to processes pertaining to the NECF, AEMC reviews of NEM in light of climate change, DSP and national transmission planning, national renewable energy technology review, smart meter roll-out, as well as other related reviews • Ongoing analysis and lobbying relating to the introduction of feed-in tariffs in NEM jurisdictions • Informing ATA members 	A	\$53,612.00
343	Joint Advocacy	Consumer Action Law Centre	NEM Network coordinator and consumer advocate	<ul style="list-style-type: none"> • Submissions and lobbying to processes pertaining to the Smart Meter Stakeholder Working Group, NECF, AEMC review of NEM in light of climate change and DSP and Commonwealth White Paper, as well as other related reviews • Monitoring and action as required to maintain robust price disclosure regime in Victoria • Submissions and lobbying to Victorian smart meter roll-out • Moderate NEM Network and NEMchat, the National Consumers Roundtable on Energy online forum • Organise quarterly teleconferences for NEM consumer advocates to identify and formulate collaborative advocacy • Co-host with CUAC, three meetings of the National Consumers Roundtable on Energy 	A	\$177,146.00
348	Joint Advocacy	South Australian Council of Social Service (SACOSS)	NEM advocate	<ul style="list-style-type: none"> • Submissions and lobbying to processes pertaining to the, NECF, AEMC review of NEM in light of climate change, smart meter roll-out, AER review of SA distribution prices and Commonwealth White Paper • Development of plain English summaries for SACOSS members about all above processes 	A	\$109,250.00

D. ACTIVITIES UNDERTAKEN IN CONSUMER ADVOCACY AND RESEARCH PROJECTS
APPROVED FOR FUNDING IN 2008/09

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS	APPROVED/ REJECTED	AMOUNT FUNDED
352	Joint Advocacy	Australian Council of Social Service (ACOSS)	NEM advocacy 2009/10	<ul style="list-style-type: none"> • Submissions and lobbying to processes pertaining to the NECF, AEMC review of NEM in light of climate change and DSP and Commonwealth White Paper, as well as other related reviews • Membership of National Smart Meter National Stakeholder Steering Committee • Research, policy development and advocacy regarding responses to climate change, including action to improve residential small end user energy efficiency, facilitate demand management, design and implement an emissions trading system, establish safety net arrangements for low income and vulnerable consumers • Inform ACOSS constituency of the import and impact of these decisions 	A	\$119,006.00
353	Joint Advocacy	Energy Users Association of Australia (EUAA)	Priority projects for 2009/10	<p>Contributions (submissions and/or lobbying activities) in relation to following processes:</p> <ul style="list-style-type: none"> • AER Review of Qld distribution prices • Implementation of CPRS and energy users <p>Research into:</p> <ul style="list-style-type: none"> • Stocktake of energy reform • Gas price transparency 	A	\$200,000.00
354	Joint Advocacy	Centre for Credit and Consumer Law	NEM advocate 2009/10	<ul style="list-style-type: none"> • Submissions and lobbying to processes pertaining to the NECF, AEMC review of NEM in light of climate change and smart meter roll-out, as well as other related reviews • Strengthen participation of Queensland NGOs in NEM decision-making • Submissions and lobbying to decisions made on energy retail prices by Queensland Competition Authority 	A	\$126,352.00
					TOTAL	\$2,520,218.50

E. PANEL OVERVIEW

Members

The Panel consists of a chairperson (Frank Peach) and four other members (Catherine Cooper, Bill Russell, Bruce Connery and Karen Chalmers-Scott) appointed on the recommendation of the Ministerial Council on Energy (MCE).

Panel members are appointed for their knowledge of the energy sector, ability to assess funding applications against specified criteria, experience in public interest advocacy, and ability to assess proposals for energy sector research benefitting consumers of electricity or natural gas.

In 2008/09, the Panel held 10 formal meetings and, where necessary, also dealt with grant applications or other matters by email resolution.

Administration

The Panel is supported by a full-time Executive Director (Kerry Connors) and a part-time Administrative Assistant (Alison Michalewicz).

The Panel seeks to maximise the amount of funding available for the allocation of grants by keeping administrative costs associated with its work to a minimum. In 2008/09, \$263,836 was expended on administration – this represented 11% of total revenue, down from 16% in 2007/08.

Back office functions for the Panel – financial, contracting and human resources – are provided by the AEMC in accordance with the Act.

2009/2010 budget

On 30 September 2008, the Panel published a draft 2009/10 budget on its website, seeking comments from stakeholders. The final 2009/10 budget was submitted for the MCE's approval on 30 October 2008.

The Hon Martin Ferguson, in his capacity as MCE Chair, advised the Panel on 19 December 2009 that

the MCE had approved a total 2009/10 budget of \$2,767,294, comprising \$2,195,294 for electricity advocacy, research and administrative costs and \$572,000 for gas advocacy, research and administrative costs.

Grant guidelines

The Panel is responsible for developing – in consultation with the AEMC and other interested stakeholders – guidelines for grant allocation consistent with criteria set by the MCE. In 2008/09, the MCE approved minor changes to the Panel's guidelines, which were required to ensure their alignment with the new legislation.

The Panel's *Grant Allocation and Application Guidelines* are published on its website – to provide guidance to prospective applicants.

Funding research

The Panel's capacity to fund research came into effect on 1 July 2008. Research projects may be initiated by the Panel, or other persons or bodies. The Panel consulted with stakeholders on its panel-initiated 2008/09 research agenda, inviting applications from organisations or individuals to undertake the research.

Ensuring diversity

To inform its grant making, the Panel commissioned a study during 2007/08 into the major classes of energy consumers, their interest and current involvement in energy market issues, and any gaps or overlaps in advocacy on their behalf.

From this report, the Panel has now identified three classes of consumers whose interests could be more comprehensively represented in national energy market policy and regulatory decisions – small business, residential households and rural consumers. The Panel is working on encouraging greater participation by these groups and those representing them.

In its meetings with stakeholders, the Panel has also promoted its capacity to fund gas advocacy as of 1 July 2008.

Evaluation of grants

The Panel has commissioned a formal independent evaluation of a selection of 2008/09 grants – this should conclude by the end of October 2009. The Panel will publish a report outlining the results of the evaluation process.

New funding approach

The Panel provides funds to build capacity in organisations which would otherwise not participate in energy policy and regulatory decisions. While more established organisations require support for advocacy, they do not require funding to build capacity – as they already have the requisite experience and expertise.

The Panel has decided to trial a different funding approach for these more established organisations – commencing in 2009/10, with the Major Energy Users Inc (MEU) and the Energy Users Association of Australia (EUAA). The new model provides each organisation with greater funding certainty and reduces its administrative work. It encourages the organisation to develop and submit a list of priority projects for Panel approval – in return for a commitment from the Panel for an overall funding amount. The Panel believes this approach will provide these organisations with sufficient resourcing to assist their advocacy – at the same time as ensuring it is able to provide comparable support to other organisations.

The Panel's website (www.advocacypanel.com.au) provides more information on its role, functions, operations and grant making.

FRANK PEACH
Chair