

# AUSTRALIAN ENERGY MARKET COMMISSION

2010-2011 ANNUAL REPORT

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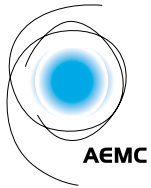
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Citation: AEMC 2010-2011 Annual report ©



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Australian Energy Market Commission  
Level 5, 201 Elizabeth Street  
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31 October 2011

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

Dear Minister

**Australian Energy Market Commission Annual Report 2010-2011**

I am pleased to present the Australian Energy Market Commission 2010-2011 Annual Report.

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

Yours Sincerely



John Pierce  
CHAIRMAN

# who we are

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## MISSION

The Australian Energy Market Commission 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 leadership, integrity and engagement.

## STRATEGIC OBJECTIVES

1. Inform energy policy development;
2. Perform our statutory functions effectively and efficiently; and
3. Strengthen our performance based culture.

# our responsibilities

## MARKET DEVELOPMENT

We provide a public platform for community debate on rules and issues affecting Australia's electricity and natural gas markets.

The AEMC has two principal functions:

1. To make and amend the national electricity and gas rules; and
2. To conduct independent reviews of the energy markets for the Ministerial Council on Energy.

At establishment in 2005 energy ministers set the goal of the AEMC which is to help achieve the Council of Australian Governments' policy objectives by developing efficient, reliable and secure energy markets that serve the community's long-term interests.

This year, another step forward in relation to our expanding role in both electricity and gas was taken when energy ministers endorsed the National Energy Customer Framework in October 2010.

The establishment of our new rule making responsibilities under the National Energy Retail Law is underway.

The AEMC Reliability Panel has defined functions in relation to electricity system security, reliability and safety. The Panel is established by the AEMC under provisions in the National Electricity Law (NEL) and the National Electricity Rules (NER). It is chaired by an AEMC Commissioner.

The Reliability Panel monitors, reviews and reports on the safety, security and reliability of the national electricity system.

In accordance with the Australian Energy Market Commission Establishment Act 2004 (SA) we provide administrative support to the Consumer Advocacy Panel which is independent of the AEMC. The Panel funds community involvement in energy debates.

### CONSISTENT RULES

The AEMC is responsible for developing market rules under the national electricity and gas laws – bringing consistent regulatory decision making to the energy sector.

The scope of our rule-making powers in the National Electricity Market (NEM) includes wholesale markets, the economic regulation of monopoly transmission and distribution networks, and transmission network planning.

The scope of our rule-making powers for gas includes the wholesale market and the economic regulation of natural gas pipelines.

Our rule making will soon be extended to retail market matters. Federal, state and territory energy ministers are establishing a national energy customer framework which includes rules for non-price retail regulation. The AEMC will be the rule maker.

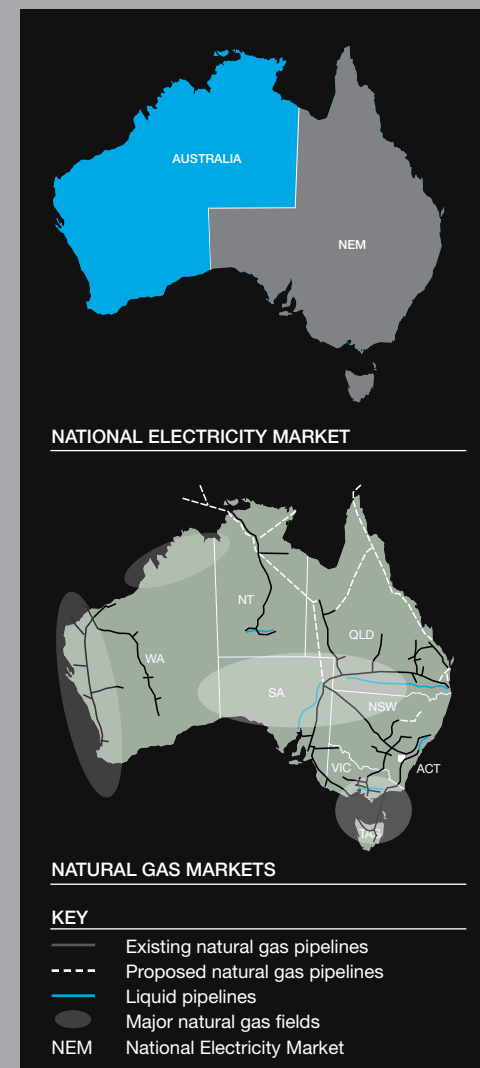
The AEMC reviews retail competition in electricity and gas markets but decisions relating to retail price control are retained by the jurisdictions.

#### National Electricity Market

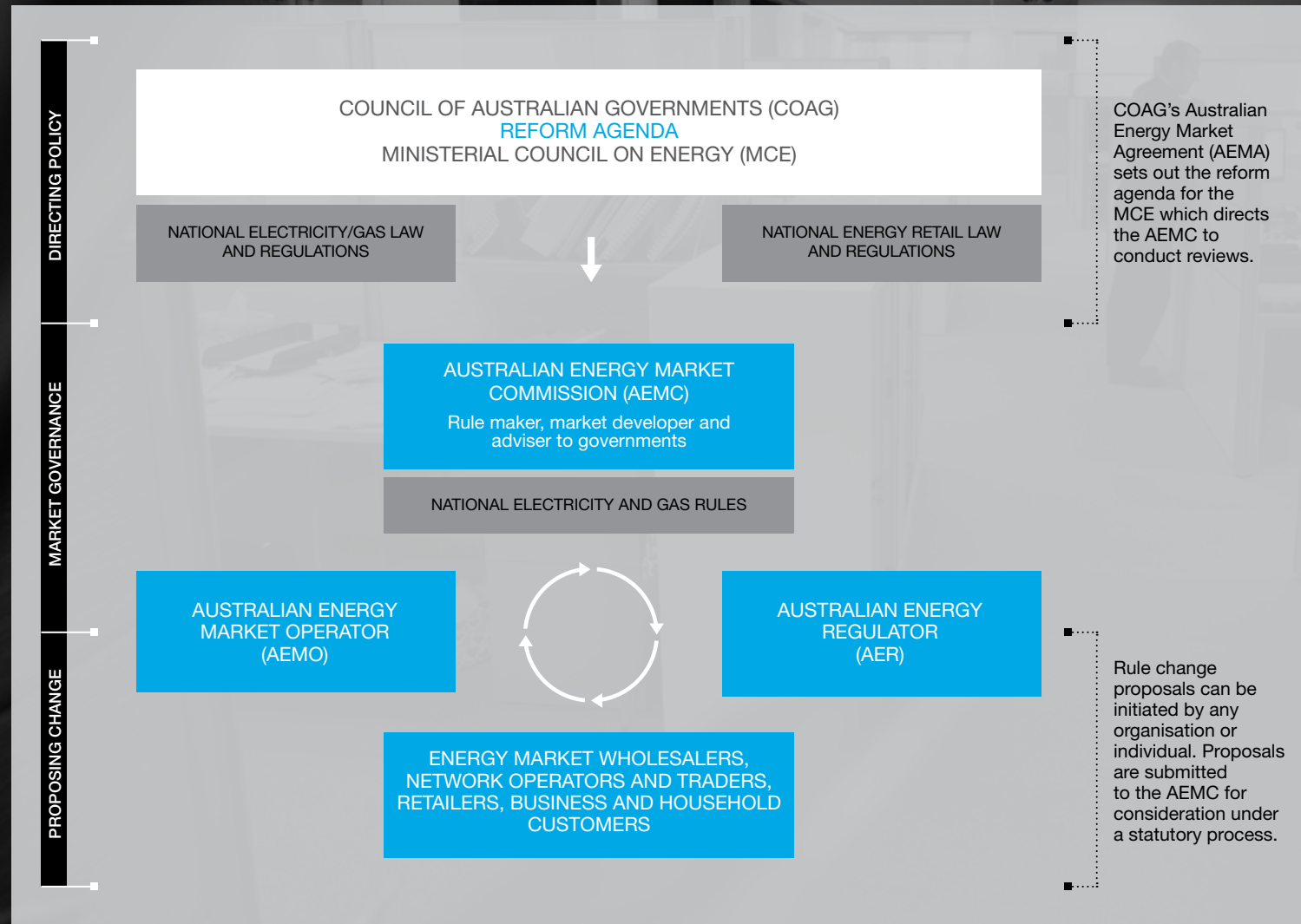
The National Electricity Market (NEM) has been in operation since 1998. It is the wholesale market for electricity supply in the participating jurisdictions which include the states of Queensland, New South Wales, Victoria, Tasmania, South Australia and the Australian Capital Territory. It delivers electricity on an interconnected system that stretches more than 4,000 km from far north Queensland to regional South Australia and includes a sea-bed cable between Victoria and Tasmania. The market is governed by the National Electricity Law (NEL) and the National Electricity Rules.

#### Natural gas markets

Participating jurisdictions under the National Gas Law (NGL) are South Australia, the Commonwealth, New South Wales, Victoria, Queensland, Tasmania, the Australian Capital Territory, Northern Territory and Western Australia (on a modified basis). The National Gas Law and the National Gas Rules bring responsibility for policy and regulation of access to natural gas pipeline services and broader elements of natural gas markets under the national energy market institutions.



# energy market governance



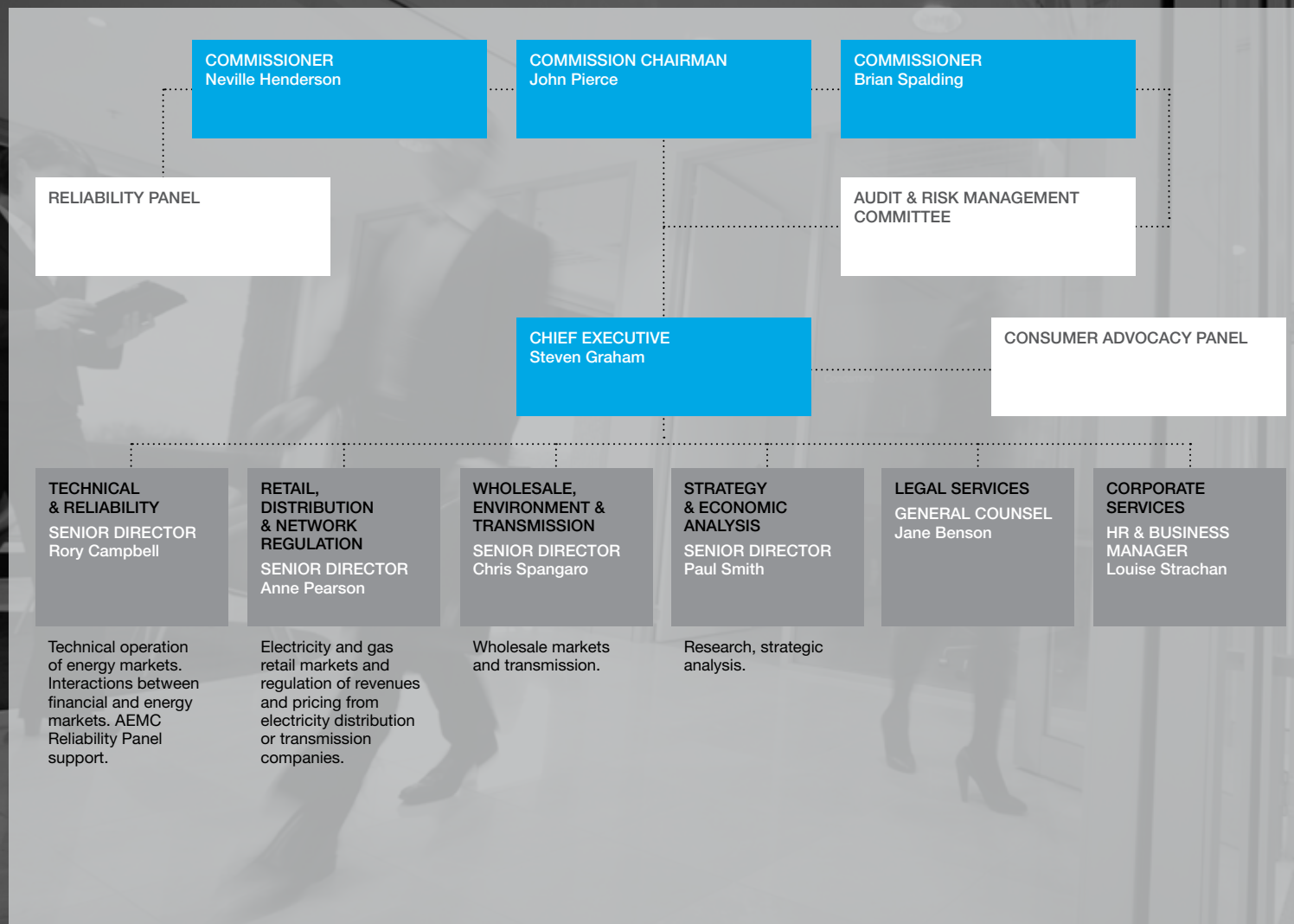
The AEMC is an independent, national body responsible to the Council of Australian Governments (COAG) through the Ministerial Council on Energy.

During the year under review COAG decided to amalgamate the Ministerial Council on Energy and the Ministerial Council on Mineral and Petroleum Resources. On 10 June 2011, COAG announced it would establish the new Standing Council on Energy and Resources to replace the Ministerial Council on Energy.

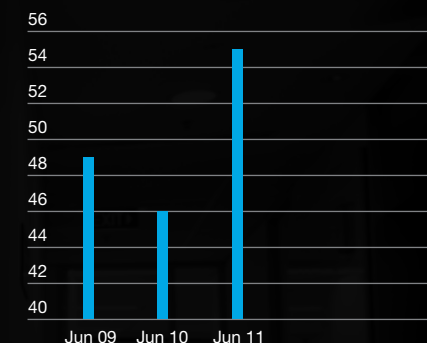
COAG is the peak intergovernmental forum in Australia with a role to initiate, develop and monitor the implementation of policy reforms that are of national significance and which require cooperative action by Australian governments.

The AEMC is a statutory commission with responsibility for making rules for electricity markets and elements of gas markets. We also review specific energy market issues or problems and provide advice to the nation's energy policy makers.

# our organisational structure



At 30 June 2011, the AEMC was led by three commissioners and employed 55 staff.



AEMC EMPLOYEE NUMBERS 2009-2011

■ No. of employees



AEMC EMPLOYEES BY GENDER JUNE 2011

■ Male 27  
■ Female 28

# highlights of the year

## RULES

# 33

rule change projects were undertaken

- 15 rules were made by the AEMC amending the National Electricity Rules.
- 6 rules were made by the AEMC amending the National Gas Rules.
- 1 determination was made to not make an electricity rule as proposed.
- 9 electricity rule change proposals continued into 2011-2012.
- 2 gas rule change proposals continued into 2011-2012.

## REVIEWS

# 12

market reviews were undertaken

- 10 market reviews were undertaken by the AEMC.
- 2 reviews were undertaken by the AEMC Reliability Panel.

## ADVICE

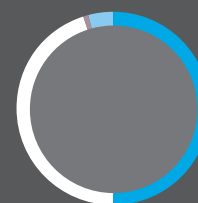
# 3

market development advice papers were released publicly

Advice to governments, community and industry on specific market development issues is a growing part of our work program:

- The AEMC Strategic Priorities for Energy Market Development 2011 was published in April 2011;
- Our review of trends in residential electricity prices over the next three years was released publicly in June 2011 by ministerial request; and
- Our advice on issues related to the development of Australian Government carbon policy, the AEMC consideration of the Garnaut Review's update paper, was published in June 2011 by ministerial request.

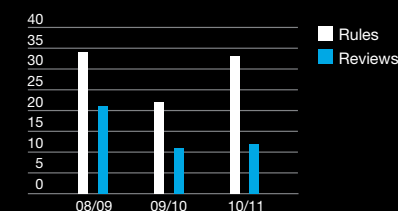
## FINANCIAL



### ACTUAL EXPENSES 2010-2011

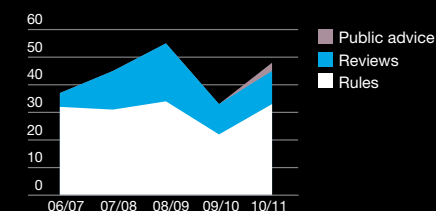
- Employee benefit 50%
- Supplies and services 45%
- Grants and subsidies (CAP) 1%
- Depreciation and amortisation 4%

- Expenditure exceeded within year funding on an approved basis owing to an increase in volume of work assigned to the AEMC. Costs are to be reimbursed in 2011-12 and 2012-13.
- Interest rate income was less than budget due to lower average funds being available for investment.
- Funding for the AEMC was provided by each of the states and territories on a proportionate basis.



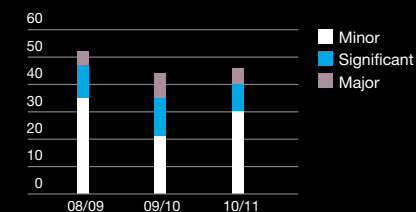
### FORMAL RULES AND REVIEWS

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



### WORK PROGRAM 2007-2011

Share of rules, reviews and public advice



### PROJECTS BY COMPLEXITY

Minor, significant and major

# chairman's report

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The steady growth of requests from the Ministerial Council on Energy for policy advice and wide ranging reviews of the nation's energy market has continued in 2010-2011. This increased demand on AEMC services is a credit to the calibre of our people and the organisation's commitment to providing evidence-based, expert counsel.

## Delivering market development

Australia's energy sector needs new investment in generation and networks to respond to climate change policies while continuing to provide reliable supply. At the same time markets are exploring opportunities for consumers to change the ways they use electricity and better manage their power bills.

Within this context the AEMC has again delivered on a demanding work program – setting rules which underpin the operation of efficient electricity and gas markets and expanding our market development role through a growing number of investigative reviews and independent advice.

## Contributing to carbon emissions policy

In the year under review the AEMC was called on to help inform development of the Australian Government's carbon policy. This included providing independent advice on the Garnaut Review's update paper. We provided advice to energy ministers and members

of the federal Multi-Party Climate Change Committee. This advice regarded aspects of energy security under the Clean Energy Future Package announced in July 2011.

The Australian Government's Clean Energy Future Package announced the Energy Security Council which is to provide advice on possible measures to address energy security risks arising from the proposed carbon emissions policy. As Chairman of the AEMC I was asked to join this new council and I will be working with the other market governance bodies and members to provide advice on how to address important issues on market resilience.

## Informing the prices debate

The Ministerial Council on Energy requested that the AEMC report on trends in residential electricity price movements over the next three years and in June 2011 the AEMC published its Future Possible Retail Electricity Price Movements report – setting out the driving pressures on power prices to 2012-2013. Advice to ministers on electricity price movements will be updated annually to help understanding of electricity price trends across the national economy.

## Rules and reviews

In 2010-2011 we considered 33 rule change proposals. We completed 21 of those within the 12 months and 11 were carried forward.



John Pierce | Chairman

## chairman's report

There was one decision to not proceed with a rule change request.

The source of new rules work this year was again dominated by the market operator AEMO (11 new proposals) followed by energy companies and consumers (five new proposals), and MCE and jurisdictional governments (four new proposals). Three proposals were generated by the AEMC and the Reliability Panel.

As our workload builds in complexity and volume it is satisfying to see the result of our continuing focus on project timeliness. This year we exercised our discretion to expedite eight of the 21 rules made – using our judgment to accelerate the rule change process where appropriate in order to more efficiently deliver an improved regulatory environment. It took 30 days on average to complete an expedited rule and 172 days on average to complete a standard rule.

In fiscal 2011 we received 10 more rule change proposals compared with the prior year. Overall, many of these proposals are raising increasingly complex implications for the market.

We are finding it necessary in some cases to extend consultation periods to give stakeholders the time they need to provide us with views and information to inform our judgment. Similarly, we may need to extend

time required for our consideration of those stakeholder views in order to deliver robust decisions and rules.

In 2010-2011 the AEMC had 12 reviews underway. Five were requested by the Ministerial Council on Energy. Another five were initiated by the AEMC to address priority market development matters and two were conducted by the AEMC's Reliability Panel as required by the National Electricity Rules.

Among the completed projects this year was the AEMC's *Review of the effectiveness of competition in the electricity retail market in the Australian Capital Territory* which found that competition had been effective in the territory in the past but needed a package of reforms to be effective again.

The *Review into the use of total factor productivity for the determination of prices and revenues* concluded in July 2011. It found that an approach based on total factor productivity could contribute to more efficient electricity and gas network regulation, but that more consistent and robust data on business operations needed to be collected and reported to the regulator before the implementation of this approach could be considered.

The annual market performance review concluded that the electricity system had met requirements for reliability, security and safety.

### Major work underway

Looking ahead we are due to produce a number of strategically important market development rules and reviews. In particular I would like to mention:

- *Power of choice: giving consumers options in the way they use electricity:*  
The MCE has requested this wide-ranging review of market and regulatory arrangements to facilitate the uptake of cost effective energy efficiency, embedded generation and demand side management opportunities.
- *Transmission frameworks review:*  
This review will develop the framework to help current and future sources of electricity compete on their merits, and contribute to supply chain efficiency. It considers whether incentives for the market based generation sector and the monopoly transmission sector are aligned to deliver least cost, timely and efficient outcomes for customers.
- *Economic regulation of electricity and gas network businesses rule changes:*  
It is nearly five years since the introduction of rules under which the AER sets revenues for regulated transmission and distribution network companies. The AER has proposed changes to the rules that it believes will lead to more efficient outcomes for customers. The AER is due to submit an extensive package of proposals to us later in 2011.

### AEMC COMMISSIONERS



From top: Chairman John Pierce, Commissioners Brian Spalding and Neville Henderson.

## chairman's report

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### Strategic priorities

High expectations are placed on our staff by governments, market and community stakeholders. Our priority is to continue producing decisions, rules and advice to the standard they expect.

Over and above this formal rules and reviews work we launched a new process of engagement to shape our work program on strategic market development. We produced a discussion paper and held a public forum in April 2011 to bring ideas together on the most important energy issues for consumers, industry and governments.

The result was substantial agreement around three strategic priorities for the continuing delivery of reliable and secure energy for the whole community. Our focus on market design will be cognisant of these priority needs to:

- Help ensure that the environment for investment is as predictable as possible;
- Examine ways in which consumers can actively manage their demand; and
- Seek to improve the regulatory framework for networks so that it makes the most efficient use of existing assets and delivers new infrastructure in timely and efficient ways.

The strategic priorities will be updated periodically to incorporate continuing stakeholder consultation. We will be presenting the strategic priorities produced

by that engagement to the new Standing Council on Energy and Resources to inform the development of the electricity and gas sectors' future work program.

The AEMC's role is due to expand again in 2012 when we will be given responsibility for the national energy retail rules. We are already building relationships and understanding around the new National Energy Retail law with market stakeholders and consumers in particular.

### Staff commitment

Our operating environment continues to test the AEMC's capacity for comprehensively researched and well-informed advice to governments. Every day our professional policy groups demonstrate their skill at reconciling engineering and physical system realities with economic policy objectives and also with commercial and financial imperatives. I would like to thank the AEMC commissioners, management and staff for the contributions they have made to improving the functioning of the energy market and deepening community understanding of how government policy will affect our energy future.

**John Pierce**  
CHAIRMAN

# chief executive's report

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Twelve months ago the AEMC foreshadowed a work program to address specific energy market challenges which have since moved to the centre of public debate and concern. We have since established strategic priorities to address these challenges – and have developed our organisation's skills and levels of efficiency.

Last year I opened my report with the following statement:

*"We are facing three converging issues: the effects of the global financial crisis, the public debate around putting a price on carbon and the need for major investment in energy infrastructure. As a result we have moved into a more challenging environment in which significant pressures are coming to bear on the market and industry – particularly in relation to the continuing delivery of affordable, reliable and secure energy supply."*

These issues will remain with us over the next few years at least. They form the focus of our 2011 *Strategic Priorities for Energy Market Development* paper. A significant component of the work undertaken by the AEMC over the last 12 months has been directly relevant to these challenges.

The work program for 2010-2012, and beyond to 2012-2013 continues this theme. There will be no short term answers to these issues of global dimension. The current world economic climate underlines this.

## Engagement

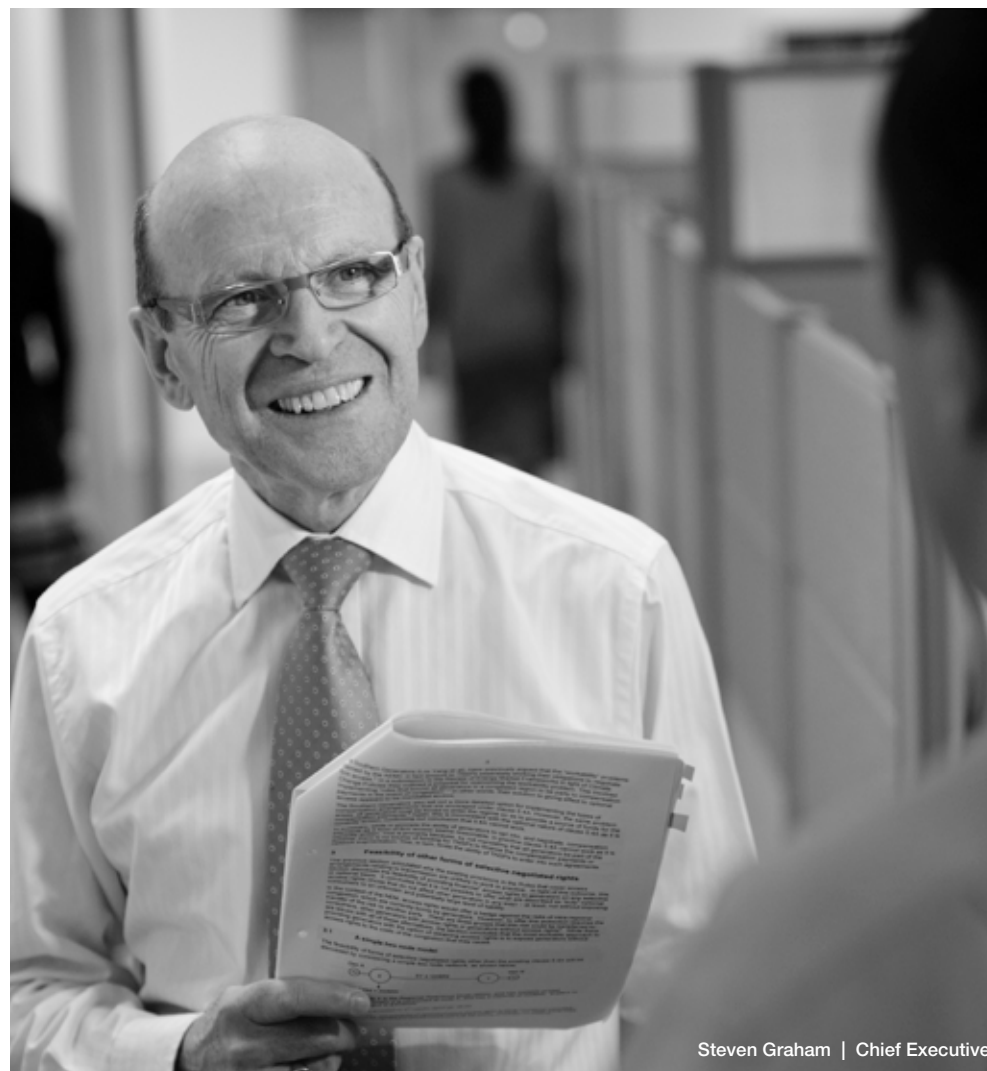
In the current circumstances the capability of the AEMC to provide informed and impartial advice on both formal and informal levels has resulted in more time spent on considering a range of market development issues outside of the formal rule and review processes.

We know that to effectively carry out this role we must be well informed by those participating in the market, whether as suppliers or consumers of energy. Accordingly, we have spent increasing periods of time interacting with individuals and segment representatives from market associations.

I would like to take this opportunity to thank all those people who have agreed to meet with us during the year for the frankness and openness they have shown in conversations and their willingness to consider alternative views.

This year we have also seen a significant increase in the engagement level associated with our formal consultation processes for both rules and market reviews. Not only are we seeing increased numbers of submissions overall – we have also noted a widening agenda of issues raised by those submissions.

We will continue to rely on the input of stakeholders who experience the market



Steven Graham | Chief Executive

## chief executive's report

on the ground, and who are closest to consumer experiences on a day to day basis. These close working relationships will help balance our analysis and contribute to the views held by proponents of change.

As we move towards the introduction of the national energy customer framework in July 2012 the challenge for all market institutions and supply side stakeholders will be to increase the effectiveness of engagement with small customers. We at the AEMC are actively working on strategies and processes to this end.

### Market frameworks

By the time this report is released we will have published the final report of the AEMC's 2011 *Strategic Priorities for Energy Market Development* paper. In response to stakeholder consultation the report includes an expanded focus on networks and the interrelationship between gas and electricity markets.

Rising electricity prices have been a focus of the community in recent times. To date the increase in prices has significantly been influenced by network costs. It is appropriate that the current and future work program of the AEMC should reflect these issues.

A very significant proportion of our resources up to the end of 2012 are already devoted to addressing the market framework

for networks as well as to demand side incentives. It is important to note that our work is focused on the continuing provision of safe, secure and reliable energy at efficient cost so as to meet the levels of service customers' desire. Increasingly we are seeing a maturing debate around network matters which recognises that while market frameworks provide the regulatory and operational base for service provision they do not replace shareholder and management oversight which determines the efficiency with which services are provided.

We will be monitoring developments in both the gas and electricity markets as the level of interrelationship continues to grow because of the expected increased reliance on gas generation. Our aim is to ensure the market frameworks allow that interrelationship to operate in the long term interest of consumers.

### Policy certainty

As mentioned, extensive stakeholder engagement is central to the way in which the AEMC operates. The transparency and openness of our processes of decision making we believe provide a sound basis for regulatory predictability. In a broader economic environment where there are significant uncertainties this reduces levels of unmanageable risk for stakeholders.

Resolution of carbon policy on a sustainable basis is a key issue for the electricity industry in particular so as to allow the market to determine efficient investments for the generation of electricity.

### Acknowledgements

The year in review has not only presented a number of challenges to the market but also to the AEMC. The transition to a new Commission progressed very well.

Over the year we have made a number of improvements to the way in which we operate as part of our continuing focus on the development of the organisation and its people. Investments in skill development and resources have helped our ability to respond to increased demands on our services and enhanced the quality of the experience of working at the AEMC.

I would like to thank John Pierce, Brian Spalding, Neville Henderson and all the AEMC staff for their enthusiasm and commitment.

**Steven Graham**  
CHIEF EXECUTIVE

### AEMC SENIOR MANAGEMENT TEAM



Clockwise from top left:  
Chief Executive Steven Graham.  
Senior Directors Rory Campbell  
and Chris Spangaro.  
Business and HR Manager Louise Stratchan.  
General Counsel Jane Benson.  
Senior Directors Paul Smith and Anne Pearson.

A black and white photograph of a man in a light-colored shirt and patterned tie, wearing glasses, sitting at a desk. He is looking down at a tablet device on the desk, with his right hand touching the screen. On the desk, there is a laptop with a label that reads 'NAEMC-18', a keyboard, a mouse, a multi-line office phone, and various other items like a mug and papers. In the background, there are two computer monitors; the left one displays a software interface, and the right one shows a landscape image. A blue semi-transparent box is overlaid on the right side of the image, containing the text 'ISSUES AND CHALLENGES' in white capital letters.

# ISSUES AND CHALLENGES

# issues and challenges

**We are looking to develop a well-informed debate on what really matters for market design and the continuing delivery of cost-effective, reliable and secure energy for the whole community.**

Energy markets are constantly evolving, as demands for energy, technology and the cost of supply changes. While change is a constant theme in energy markets, Australia (in common with many energy markets around the world) is facing a period of transformation as governments at all levels are developing policies to address climate change.

The nation's energy sector faces the need for new investment in generation and network capacity to respond to changes in demand and an ageing asset base. In addition, investment is required to respond to climate change policies. At the same time opportunities for consumers to change the way they use electricity and manage their power bills are being explored.

The AEMC is building a consensus with our stakeholders on how best to organise our work program in order to address these challenges effectively.

The national energy market is in a relatively strong position as a result of market reforms to date which have delivered substantial benefits. Since the start of the National Electricity Market (NEM) in 1998 consumers

have benefitted from more competition, and sufficient investment to ensure reliable supply.

In contrast to previous decades where real electricity prices fell we are now in a period of rising real prices following significant increases in electricity network costs. This is because significant investment has been required to expand network capacity to meet rising peak demand. Investment has also been required to replace aging network assets. Upward pressure on prices is expected to continue for the foreseeable future for a variety of reasons including responses to policies designed to reduce carbon emissions across our economy.

In response to these challenges the AEMC took steps in 2010-2011 to start a new process of engagement with stakeholders to shape our work program on strategic market development.

We released a discussion paper and held a public forum in April 2011 to bring ideas together on priority issues facing consumers, business and government.

Over 100 of the most influential voices in the national energy sector attended our public forum. Following the forum we received 44 written submissions from an extensive range of concerned stakeholders ranging from small consumer groups and environmental advocacy groups to



## **BEN WOODSIDE, SENIOR ECONOMIST**

Ben has over 10 years' experience of regulating gas and electricity markets in Great Britain and was sponsored by the AEMC to travel to Australia and join our Strategy and Economic Analysis team. As a senior economist at Ofgem he worked on opening retail markets to competition, third party access to gas storage, the balancing rules in both gas and electricity and was chief author of the British regulator's major policy document, Project Discovery. He has also spent time at the European Commission's mergers branch. Ben says he most enjoys the variety that comes from working in a small team: "I am responsible for managing a broad range of challenging issues across all teams and levels within the organisation." Ben holds a BA (Hons) in Economics with French.



## **CATRIONA WEBSTER, SENIOR LAWYER**

Catriona joined our expanding legal team in 2009 specifically to provide legal counsel to the policy teams on rules and reviews. Catriona has strong experience in market governance having worked on implementation and governance of retail gas markets and the establishment of AEMO as national market operator (while working as Corporate Counsel for The Marketplace Company). Before moving into the energy market arena, Catriona was a senior associate (in mergers and acquisitions) at Mallesons Stephen Jaques. She finds working with an inter-disciplinary team one of the most rewarding aspects of her AEMC role. "It's a pleasure to work with a team of motivated and engaged professionals who share an interest in energy market reform." Catriona holds an LLB (Hons) from the University of Sydney.

## issues and challenges

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generators, energy consultants, academics network service providers (NSPs), retailers, large energy users and governments.

As a result of this forum we developed substantial agreement around three strategic priorities for the continuing delivery of reliable and secure energy.

These priorities will form the basis of our market advisory role in the year ahead and will be reviewed on a periodic basis. This will enable us to regularly update the Standing Council Energy and Resources (SCER) on stakeholder views of the opportunities, risks and challenges facing the energy sector.

### **Strategic Priority 1: A predictable regulatory and market environment for rewarding economically efficient investment**

This priority focuses on creating the environment to deliver efficient investment in new generation capacity over the next decade to meet forecast rising peak demand and maintain reliability and security of supply. Significant investment in low emissions intensity generation capacity will be also required to meet the government's climate change policies and renewable energy targets. The regulatory and market environment must allow companies to make the best commercial decisions possible to ensure timely and efficient investment is undertaken.

Creating an environment for investment is crucial given the limited number of market participants who are able to access cost effective finance following the Global Financial Crisis. A more certain investment environment can reduce new investment risks and lower investment costs as a result. As market confidence increases, energy businesses are more likely to enter into long term contracts. Such factors have the potential to encourage new participants into the market – facilitating competition.

### **Strategic Priority 2: Building and capturing the value of flexible demand**

This priority addresses opportunities:

- for consumers to make informed choices about the way they use electricity;
- for companies across the electricity supply chain to promote more efficient electricity use.

In some cases demand reductions can be an alternative option to building more infrastructure, and can limit price volatility at peak times. For these opportunities to be realised, there needs to be a clear commercial and regulatory framework. Incentives for peak demand management are split between different parts of the supply chain. It will be important for retailers, network service providers and the market operator to discuss commercial opportunities. Market participants

will also have a significant role in identifying and explaining available opportunities to their customers.

### **Strategic Priority 3: Efficient use and investment in networks**

This priority complements our focus on generation investment by highlighting the importance of using existing infrastructure efficiently. A robust market framework requires the legal monopoly networks to have the right incentives for effective interaction with the competitive generation market so that total system costs can be as low as possible.

It is important that the transmission network remains robust and resilient to major changes in the generation mix, as the Australian Government's environmental targets are driving new renewables generation – potentially in locations remote from the existing network. It is important that these new power sources are connected to the network in timely and cost effective ways.

This priority also encompasses economic regulation of networks. Increased capital expenditure related to network asset replacement and expansion has been the single largest component of recent price increases. Network costs now account for around 50 per cent of customers' electricity bills. Growing concerns from the community and business about rising prices highlights

the importance of ensuring that the regulatory regime delivers value for money.



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# year in review

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**The relationship between rules, energy markets, energy sector efficiency and the economy are increasingly relevant. Failure to deliver the most efficient energy market framework would create a drag on the economy. Creating a more efficient structure can deliver significant productivity gains.**

## Building momentum

The impact of previous AEMC reviews and rule change decisions continue to be seen.

In particular, the new framework for national transmission planning began to operate in the year under review. The first National Transmission Network Development Plan (NTNDP) was produced by the market operator in December 2010 and transmission companies started producing their first annual planning reports that have regard to the NTNDP.

The Regulatory Investment Test for Transmission has introduced enhanced consultation and analysis to assess the best projects to provide reliable network services, including demand side options.

Rule changes arising from the AEMC's *Congestion management review* were also implemented during the year under review, including the provision of additional information by the market operator to help market participants understand the risks of congestion occurring.

## Strategic priorities discussion paper

In April 2011 the AEMC released its first strategic priorities discussion paper for community consultation and issues raised will be raised in a final report to be published in September 2011.

A significant proportion of respondents considered that more emphasis was required on emerging challenges for Australia's east coast gas market. Stakeholders believed that the implications of the likely linkage between east coast gas prices and international gas prices for the Australian electricity market was not well understood by policy-makers.

There was also a concern that arrangements to address security of supply and emergencies in the gas and electricity markets were not well co-ordinated. We will be engaging further with stakeholders and undertaking research and analysis to consider the scope for more detailed work on these issues. However, we are keen to avoid duplication with existing planned work, including AEMO's reviews of the Short Term Trading Markets (STTM).

Some consumer representatives believed that the discussion paper's outline of challenges and strategic priorities did not address some of their key concerns. Issues including questions on whether all consumers were benefiting from retail competition and whether retail price caps should remain in place.

The AEMC has a number of projects underway which involve consideration of these issues. In the year under review we completed our third review into the effectiveness of competition in state and territory electricity retail markets (ACT March 2011).

Energy ministers revised the schedule for the retail energy market competition reviews in June 2011. They agreed that in 2012, the AEMC will review the effectiveness of retail competition in electricity and gas in New South Wales. The National Energy Consumer Framework (NECF) will start in July 2012, and the AEMC will be tasked with administering the National Energy Retail Rules.

In the lead up to the implementation of the NECF, it will be particularly important for the AEMC to engage regularly with consumer representatives. We are working with consumer representatives to develop a longer term approach to regular engagement.

## Work program – strategic focus

**Our strategic priorities focus on AEMC projects, but extend to the entire domestic stationary energy sector. Delivery of effective market outcomes for consumers depends on a range of policy settings for which the AEMC is not directly responsible.**

**Where appropriate we engage with relevant bodies to enhance understanding and cooperation in the following areas.**

## Priority 1 – investment

We monitor wider market developments and provide advice as requested by the MCE to help ensure that the environment for investment is as predictable as possible.

## Review

- The *Review of the effectiveness of electricity retail competition in the Australian Capital Territory*, was completed in the year under review and considered impediments to effective competition and recommended measures to further promote the development of retail competition.
- AEMC reviews of future possible retail electricity price movements have been requested by the MCE. We will report on the trends in residential electricity prices over the coming years so that the key drivers of price movements are well understood.
- The *Review of arrangements for compensation following an administered price cap or market floor price* considers the effectiveness of specific aspects of the market frameworks which provide investment signals and manage the risks to market participants caused by periods of high wholesale market prices.

## Rule change proposal

- The *Various hedge instruments in the declared wholesale gas market* proposal addresses the management of financial risks related to the buying and selling of wholesale natural gas.
- The *STTM Brisbane Hub* proposal aims to reduce implementation and operational costs for the Brisbane Short Term Trading Market in natural gas.
- The *Potential generator market power in the National Electricity Market* proposal addresses the perceived exercise of market power by generators.
- The *Application and operation of administered price periods* proposal aims to improve clarity and certainty in terms of how administered price periods operate. It also explores the impacts of administered price periods on willingness to invest and on security and reliability of supply.

## Priority 2 – demand

We examine ways in which consumers can actively manage their demand in ways that enable them to choose trade-offs between lower costs and the potential inconvenience of accepting limitations on consumption at particular times.

## Review

- The review, *Power of choice: giving consumers options in the way they use*

*electricity*, will identify and enhance opportunities for effective demand side participation.

## Rule change proposal

- The *Efficiency benefit sharing scheme (EBSS) and demand management* proposal addresses potential disincentives for Transmission Network Service Providers to consider DSP instead of building network infrastructure.
- The *Inclusion of embedded generation into demand management* proposal seeks to expand the Demand Management Incentive Scheme for distribution businesses.
- The *Network support payments and avoided TUOS for embedded generators* proposal seeks to ensure that embedded generators are properly compensated, for the service they provide.

## Priority 3 – networks

We ensure that the regulatory framework for networks makes the most efficient use of existing assets and delivers timely and efficient investment in new infrastructure.

## Review

- The *Review of transmission frameworks* is examining the transmission sector's role in providing services to the competitive parts of the electricity market.

## AEMC WORK PROGRAM

	FY10			2010-2011												FY12		
	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S
<b>RULES</b>																		
Reliability settings from 1 July 2012																		
Scale efficient network extensions																		
Release of generator information																		
Application dual marginal loss factors																		
Carbon dioxide equivalent intensity index																		
Victoria generator technical standards																		
Metering data/metrology requirements																		
Amendments to PASA-related rules																		
Minor changes 2011 – electricity																		
Feed-in schemes/climate change funds																		
DNSP transmission-related charges																		
Business day definition																		
Timing for spot price reporting																		
Aggregation of ancillary services loads																		
NSCAS																		
Dandenong LNG storage facility																		
STTM compensation fund contributions																		
STTM data validation/price setting																		
Minor changes 2011 – gas																		
Timetable prescribed gas STTM reviews																		
Calculation of interest/gas markets																		
Tasmania tranche 5a procedure																		
Potential generator market power																		
Network support payments/avoided TUOS																		
Administered price periods																		
Total factor productivity/distribution																		
Definition temporary over-voltage limits																		
Efficiency benefit sharing scheme																		
Embedded generation research																		
Inter-regional transmission charging																		
Hedging instruments																		
STTM Brisbane hub																		
<b>REVIEWS</b>																		
Compensation guidelines																		
Synergen Power compensation																		
Last Resort Planning Power – 2010																		
Hedging contracts																		
Mandated smart meter infrastructure																		
Electricity retail market ACT																		
Total factor productivity																		
Annual market performance review 2010																		
Reliability and emergency reserve																		
Transmission frameworks																		
Power of choice																		
Compensation following APP																		

## year in review

- The *Review into the use of total factor productivity for the determination of prices and revenues* was concluded immediately after the close of the year under review. It found that using a total factor productivity-based methodology could contribute to efficiency improvements in electricity and gas network regulation. However, it found that before implementation could be considered, more consistent and robust data on network business inputs and outputs needed to be collected and reported to the regulator. A related rule change request – *Total factor productivity for distribution network regulation* – is being assessed in line with the AEMC's wider review of total factor productivity.
- A review of distribution reliability standards was being discussed with the Ministerial Council of Energy at the time of publishing this report. It would consider whether there is merit in developing a nationally consistent framework for expressing, delivering and reporting on reliability outcomes. A separate work stream would review the New South Wales distribution reliability standards and outcomes.

### Rule change proposal

- The *Inter-regional transmission charging* proposal is for the AEMC to develop a uniform national inter-regional transmission charge and methodology to more

efficiently allocate the costs of utilisation of transmission assets that provide interregional transfers of energy to consumers.

- The *Definition of temporary over-voltage limits* proposal aims to reduce the incidence of premature binding on transmission lines, and therefore increase the levels of unconstrained electricity supply. Our consideration will assess the physical demands of an increase in TOV limits which may increase overall costs of construction and maintenance and limit investment efficiency.
- We completed the *Scale efficient network extensions* rule change this year. Transmission businesses are now required to undertake and publish on request locational reports to reveal market opportunities for coordinated connection of new generators to the electricity network.

### Rules

#### 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.

The National Electricity Objective (NEO) 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:

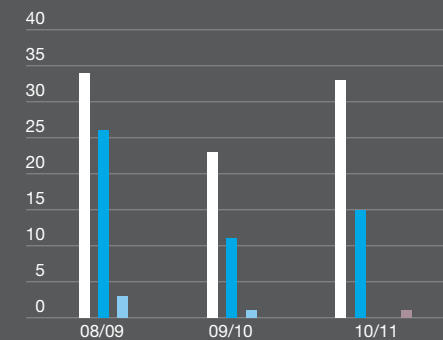
- a) price, quality, safety, reliability and security of supply of electricity; and
- b) the reliability, safety and security of the national electricity system.”

The National Gas Objective (NGO) 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.”

We may give weight to any aspects of the objectives as we consider appropriate in the circumstances. 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.

The National Electricity Law and the National Gas Law provides the flexibility to consolidate more than one proposal (section 93 of the NEL and section 300 of the NGL) and propose alternative solutions (section 91A of the NEL and section 296 of the NGL).



### RULE MAKING ACTIVITIES

- Total rules considered
- Rules made
- Rules not made
- Decision not to proceed with request

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 proponents.

During the year under review, we considered a total of 33 rule change proposals bearing on the National Electricity Market and natural gas markets.

- 15 rules were made by the AEMC amending the National Electricity Rules.
- 6 rules were made by the AEMC amending the National Gas Rules.
- 1 determination to not make an electricity rule change.
- 9 electricity rule change proposals considered were still current at 30 June 2011.
- 2 gas rule change proposals were current at 30 June 2011.

Continuing the pattern established from the start of the AEMC most rule change proposals were brought forward by the market operator (AEMO), and the MCE.

### Proponents of new rule change proposals 2010-2011 (includes electricity and gas)

PROPONENT	2010-11
Hydro Tasmania	1
Senergy	1
United Energy	1
MAREC	1
MEU	1
Tasmanian Government	1
Reliability Panel	1
AEMC	2
MCE	3
AEMO	11
<b>Total</b>	<b>23</b>

### Decisions not to proceed

The Commission may make a decision not to proceed with a rule change request under certain circumstances, 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 was one decision 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 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 “standard timeframe” under law for a rule change is 130 days.

The AEMC does, however, have some flexibility to manage its work program and to manage complex issues 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.

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 assesses each rule change proposal on receipt and when it is considered complex or controversial the standard statutory timeframe may be extended at the beginning of the process to allow appropriate consultation and evaluation. In accordance with the law a notice in relation to extensions is published at the time of commencement.

The rule change process includes the publication of an issues paper with the initial publication of a rule change proposal. Publication of the issues paper allows the rule proposal to be put into the context of broader market development issues and other rule and review work undertaken by the AEMC. The preliminary analysis required to prepare the issues paper also allows more informed project planning and efficient use of staff and expenditure.

In the year under review there was a significant increase in the number of proposals for change brought to the Commission for consideration (an increase of 10 over the previous year). The number of public submissions received for rules completed this year was 138 (six of those submissions were received in relation to gas rule change proposals).

Again this year we exercised our judgement to accelerate the rule change process where appropriate in line with our focus on project management efficiency. Accordingly, it is important to note the different timeframes

## year in review

recorded for different categories of rule change proposals.

In 2010-2011 eight rule determinations were expedited, one was fast tracked and 12 were completed under the normal category.

It took 30 days on average to complete each expedited rule, 86 days to complete the single fast track rule and 172 days on average to complete each rule change proposal in the normal category.

Three of the 21 rules made in the year under review were extended once (s107) – these were Reliability settings from 1 July 2012, DNSP recovery of transmission related charges and Publication of a carbon dioxide equivalent intensity index for the National Electricity Market.

Another three rules were particularly complex rule change requests which attracted high numbers of submissions and involved extensive stakeholder consultation. They were extended a number of times: *Provision of metering data services and clarification of existing metrology requirements* (4), *Scale efficient network extensions and network support and control ancillary services* (3), and *Network support and control ancillary services* (2). Extensions were granted for range of reasons including the need to properly accommodate stakeholder concerns and to enable the comprehensive consideration

of complicated issues raised during public consultation.

### National Energy Retail Rules

The AEMC is about to take the next step in our expanding role – responsibility for the national energy customer rules.

During the year under review, in October 2010, the Ministerial Council on Energy endorsed the legislative package for the National Energy Customer Framework.

The National Energy Retail Law was passed by the South Australian parliament (as lead legislature) on 9 March 2011.

Work on finalising the initial National Energy Retail Rules was underway at the time of writing this report and these will be made by the South Australian Minister for Energy.

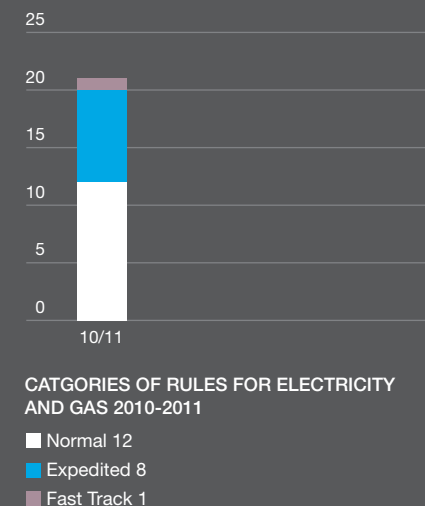
The Queensland Government has announced its intention to fully implement the NECF with a started date proposed for July 2012. The extent to which the National Energy Retail law will apply in each state and territory depends on the application legislation to be passed by each jurisdiction. Other jurisdictions are also progressing implementation planning and a number are expected to achieve a starting date of July 2012.

The National Energy Customer Framework is one of the Council of Australian Government's landmark energy reforms. It implements the council's commitment to transfer current state and territory responsibilities to a new national regulatory regime governing sale and supply of energy to retail customers.

The new framework's aim is national consistency in the medium to long term for all stakeholders including:

- End-use customers – to ensure an efficient level of consumer protection over and above the general law; and
- Industry – to clarify roles between retailers, distributors and customers and governments; and

The package includes an extensive list of obligations including quality of information on bills, marketing regulation, and mandatory hardship programs which require every retailer to help customers in financial trouble. As rule maker and market developer we are already preparing to effectively engage with market stakeholders, and consumers in particular, around the new National Energy Retail Law and the National Energy Retail Rules.



## Electricity rules made by the AEMC in 2010-2011

ELECTRICITY RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPOSER	CATEGORY	BENEFIT / IMPACT
Payments under feed-in schemes and climate change funds	Rule 2010 No.7 (version 38)	1 July 2010	1 July 2010	ETSA Utilities	Normal	Sets out a new cost recovery mechanism which may be used by distribution network service providers to recover payments which they may be required to make in relation to eligible jurisdictional schemes (such as feed-in schemes and climate change funds).
Publication of a carbon dioxide equivalent intensity index for the National Electricity Market	Rule 2010 No.8 (version 38)	22 July 2010	22 July 2010	AEMO	Normal	Introduces a new obligation and framework for AEMO to develop, review, amend and publish a CO2-e Intensity Index for the NEM. The information provided by a CO2-e Intensity Index is sought by market participants to determine and account for a carbon price (should one be present in the future) in the settlement of certain forward electricity contracts.
Timing for spot price reporting	Rule 2010 No.9 (version 38)	22 July 2010	22 July 2010	AER	Expedited	Extends time allowed for the Australian Energy Regulator to publish reports on trading intervals in which the spot price exceeds \$5000 per megawatt hour. This should allow more complete market information and analysis in relation to these events to enhance decision making.
Victoria generator technical performance standards derogations	Rule 2010 No.10 (version 39)	9 September 2010	16 September 2010	Minister for Energy and Resources (Victoria)	Normal	Removes redundant derogations from the rules.
Aggregation of ancillary services loads	Rule 2010 No.11 (version 39)	9 September 2010	16 September 2010	AEMO	Normal	Removes the requirement for market loads forming part of an aggregated ancillary services load to be classified as a scheduled load.
Provision of metering data services and clarification of existing metrology requirements	Rule 2010 No.12 (version 40)	25 November 2010	16 December 2010	AEMO	Normal	Meters perform a crucial function. They enable data to be collected so that prices can be settled at every point of exchange. Without them, parties of either side of each meter could not settle a purchase or make a sale. This rule establishes the Metering Data Provider as a new category of service provider regulated by the rules. It gives one party end-to-end responsibility for the entire metering process. Roles and compliance obligations of participants are now easier to understand – another step in lowering the cost of compliance and contributing to more competition for service delivery.
Amendments to PASA-related rules	Rule 2010 No.13 (version 40)	2 December 2010	16 December 2010	AEMO	Normal	Allows reserves to be shared across multiple regions by amending the process for medium term projected assessment of system adequacy. Also addressed 22 associated miscellaneous issues in the rules.

## year in review

ELECTRICITY RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT / IMPACT
Release of generator information by AEMO	Rule 2010 No.14 (version 41)	23 December 2010	20 January 2011	Senergy Econnect Australia Pty Ltd	Normal	Allows connecting generators to have earlier access to more complete information, allowing for more efficient investment decisions. It brings forward the time when AEMO is required to release specific information (describing how particular generation plant will affect power system function). This information is used by generators to inform the negotiation of connection agreements.
DNSP recovery of transmission-related charges	Rule 2011 No.1 (version 42)	24 March 2011	24 March 2011	United Energy Distribution	Normal	Specifies the types of transmission-related costs which are permitted for cost recovery by distribution network service providers. It aims to ensure that only efficient costs are passed through the annual pricing proposal process. It provides clarity for electricity businesses, and protects consumers by providing sufficient regulatory oversight.
Network Support and Control Ancillary Services	Rule 2011 No.2 (version 42)	7 April 2011	5 April 2012	AEMO	Normal	Ancillary services control power flow into or out of a transmission network. These services maintain the network's secure operating state and, when required, can increase its power transfer capability. This rule clarifies arrangements governing the way these services are procured and deployed and establishes who is responsible for providing these services. This encourages more competition in the provision of ancillary services and helps ensure that existing transmission lines and transformers are used more efficiently – keeping costs down.
Business day definition	Rule 2011 No.3 (version 43)	21 April 2011	21 April 2011	AEMO	Expedited	Clarifies which days are business days for the purposes of the national electricity market. It removes some prevailing confusion and eliminates potential for multiple interpretations and so improves compliance and market operation.
Minor changes 2011 – electricity	Rule 2011 No.4 (version 44)	16 June 2011	1 July 2011	AEMC	Expedited	Corrects minor errors and makes non-material changes in order to improve accuracy and consistency of the National Electricity Rules.
Reliability settings from 1 July 2012	Rule 2011 No.5 (version 44)	16 June 2011	1 July 2011	Reliability Panel	Normal	Balances the need to provide strong and continuous signals for efficient levels of investment while limiting the financial exposure of market participants and consumers in the market. It establishes a process of indexation to preserve the real values of the market price cap and the cumulative price threshold over time. It retains an amended, regular process for comprehensive review of the reliability standard and settings by the Reliability Panel.
Application of dual marginal loss factors	Rule 2011 No.6 (version 44)	29 June 2011	30 June 2011	AEMO	Normal	Allows for the application of two loss factors to a single connection point in specific circumstances. This addresses situations where application of a single loss factor can result in distortions to dispatch, pricing and settlement outcomes.
Scale Efficient Network Extensions (SENEs)	Rule 2011 No.7 (version 44)	30 June 2011	1 July 2011	MCE	Normal	Aims to strengthen the existing connections framework to facilitate provision of energy for consumer needs at an efficient cost. Introduces a requirement on transmission businesses to publish studies of potential market opportunities for coordinated connection projects – helping potential investors make informed, commercial decisions to fund a SENE.

## year in review

### Gas rules made by the AEMC in 2010-2011

GAS RULE MADE	CONSOLIDATION	DATE MADE	COMMENCED	PROPONENT	CATEGORY	BENEFIT / IMPACT
Calculation of interest for gas markets	Rule 2010 No.2 (version 5)	4 November 2010	4 November 2010	AEMO	Expedited	Provides a clear and consistent approach to the calculation of interest on sums owing under the gas rules. Standardises a simple interest approach across the Victorian Declared Wholesale Gas Market, the Short Term Trading Market and the Gas Bulletin Board.
Timetable for prescribed gas STTM reviews	Rule 2010 No.3 (version 6)	9 December 2010	16 December 2010	AEMO	Expedited	Gives AEMO sufficient time to analyse and consult on live market operations when undertaking its prescribed market reviews. The first three prescribed gas Short Term Trading Market (STTM) reviews will be consolidated and completed by 31 March 2012. And the Minimum Market Price (MMP) review will be moved to 31 December 2012 so it can be reviewed at the same time as other STTM parameter settings.
Dandenong Liquefied Natural Gas Storage Facility	Rule 2010 No.4 (version 7)	16 December 2010	23 December 2010	AEMO	Fast track	The 12000 tonnes Dandenong LNG facility provides storage to participants in the Victorian Declared Wholesale Gas Market and others. In light of AEMO's claim of a decreased reliance on LNG for system security, this rule partially liberalised the facility's operation and essentially removed AEMO's right to 3000 tonnes of storage capacity.
Calculation of STTM participant compensation fund contributions	Rule 2011 No.1 (version 8)	17 March 2011	17 March 2011	AEMO	Expedited	This rule enhances the efficient operation of natural gas services in the STTM by ensuring that contributions made by gas shippers to the STTM Participant Compensation Fund are based solely on withdrawals of gas. It ensures that Market Operator Services (MOS) and overrun MOS are only used as physical gas balancing services. It improves overall market efficiency by clarifying details on the operation of the participant compensation fund and market operator services for gas shippers.
STTM data validation and price setting process	Rule 2011 No.2 (version 10)	5 May 2011	16 June 2011	AEMO	Expedited	Improves the efficiency and accuracy of price setting in the Short Term Trading Market for natural gas. Its key purpose is to provide AEMO with more time to review and confirm the accuracy of STTM facility information to reduce the risk of erroneous STTM facility information affecting the setting of schedules and prices in the STTM.
Minor changes 2011 – gas	Rule 2011 No.3 (version 9)	16 June 2011	16 June 2011	AEMC	Expedited	Corrects minor errors and made non-material changes in order to improve the accuracy and consistency of the National Gas Rules.

### Decisions not to proceed with a rule change request

There was one decision taken by the AEMC during the year not to proceed on an electricity rule as requested by proponents.

NAME	DATE	PROPONENT
Retail energy price setting	31 May 2011	Mothers Against Rising Energy Costs (MAREC).

## year in review

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### Electricity rules under consideration at 30 June 2011

Nine electricity rule change proposals remained under consideration at the close of the 2010-2011 year.

Seven of the nine electricity rule change proposals under consideration at 30 June 2011 were received during 2010-2011

Two rule change proposals were carried forward from 2008-2009:

- *Total factor productivity for distribution network regulation*, was initiated in July 2008 and has been pending outcome of the review into the Use of Total Factor Productivity for the Determination of Prices and Revenues. This review's final report was published on 7 July 2011, immediately after the close of the year under review and work is now underway on the deferred rule.
- *Inter-regional transmission charging* was initiated in May 2010.



#### CHRISTIAAN ZUUR, ADVISER

Christiaan joined the AEMC in 2007 and has worked on a series of the organisation's more complex reviews including investigations into the state of energy retail competition in Australia (for Victoria and South Australia), and the AEMC's review of energy market frameworks in light of climate change. "It is professionally rewarding to be working in an organisation at the forefront of significant debates on all aspects of energy policy," Christiaan says. "I have particularly enjoyed the challenge of translating highly technical market information to help build real understanding of the options we face in terms of energy market development."



#### SOPHIE CAZABON, GRADUATE ADVISER

Sophie is the AEMC's first graduate adviser and comes to us from Ireland where she completed a BA in law, economics and politics at the National University of Ireland, Galway. She came to Sydney in 2010 and says she "knew pretty quickly" she would never want to leave. Sophie is coming to the end of her first rotation with the Retail, Distribution and Network Regulation Team. The highlight of her AEMC experience so far has been working on the report to energy ministers on retail electricity price forecasts: "Everyone I meet has a view on electricity prices and the issue is very high profile – it has been fascinating to learn about the complex drivers of price movements in Australia."

## Electricity rule change proposals under consideration at 30 June 2011

ELECTRICITY RULE CHANGE REQUEST	PROPONENT	INITIATED	CATEGORY	STATUS AT 30 JUNE 2011
Total factor productivity for distribution network regulation	Minister for Energy and Resources (Victoria)	24 July 2008	Normal	Reopened after 30 June 2011.  Activity on this rule was suspended at the first round consultation stage to allow completion of a broader based AEMC review titled <i>Review into the use of total factor productivity for the determination of prices and revenues</i> . Following the publication of the review's final report immediately after the close of the year under review on 7 July 2011 this rule request was opened again for consideration.
Inter-regional transmission charging	MCE	13 May 2010	Normal	Preparing discussion paper.  This request seeks to develop a uniform national inter-regional transmission charge and methodology to more efficiently allocate the costs of utilisation of transmission assets that provide interregional transfers of energy to consumers. The proposal is for a load export charge to be paid by consumers who benefit from transmission investments in another region.
Application and operation of administered price periods	AEMO	31 March 2011	Normal	Preparing draft determination and draft rule.  Specific market circumstances leading to an administered price period are triggered by periods of extreme demand (caused for example by unusual weather) combined with generator outage (such as equipment failure). Most times these supply shortages can be managed. The market circumstances which trigger an administered price period are extremely rare.  This request applies to circumstances where prolonged and extreme market circumstances caused by events outside normal market operations leads AEMO to apply an administered price cap – to protect customers while a severe operational incident is dealt with. It seeks to clarify the way that AEMO administers prices for electricity and ancillary services during these periods.
Potential generator market power in the NEM	Major Energy Users Inc.	14 April 2011	Normal	Reviewing submissions on the rule change proposal and consultation paper – and preparing directions paper.  This request seeks to constrain the perceived exercise of market power by large generators during periods of high demand. The proposal would require the AER to assess which generators have market power and declare them to be a 'dominant generator'. When regional demand exceeds a specific level, a 'dominant generator' would be required to offer all of its available capacity for dispatch at a price not exceeding \$300/MWh.
Tasmania tranche 5a procedure changes rule	Government of Tasmania	2 June 2011	Expedited	Final determination being prepared.  The request sought to extend retail contestability to Tasmanian customers consuming between 50 and 150MWh per annum. It proposed a one-off transitional rule to amend a metrology procedure.

## year in review

ELECTRICITY RULE CHANGE REQUEST	PROPONENT	INITIATED	CATEGORY	STATUS AT 30 JUNE 2011
Network support payments and avoided TUOS for embedded generators	MCE	23 June 2011	Normal	First round consultation.  This request seeks to ensure that embedded generators are correctly compensated for the service they provide. That is, to clarify the arrangements for avoided TUOS payments for embedded generators that already receive a network support payment from a transmission network service provider.
Efficiency benefit sharing scheme and demand management expenditure by transmission businesses	MCE	23 June 2011	Normal	Initial consultation.  This request seeks to amend the Efficiency Benefit Sharing Scheme framework applicable to transmission businesses. It would require the AER to consider the scheme's effect on business incentives to undertake non-network alternative expenditure.
Inclusion of embedded generation research into demand management incentive scheme	MCE	23 June 2011	Normal	Initial consultation.  This request seeks to expand the Demand Management Incentive Scheme for distribution businesses. It would require the AER to consider incentives for innovation in connection of embedded generators.
Definition of temporary over-voltage limits	Hydro Tasmania	30 June 2011	Normal	First round consultation.  This request seeks to redefine the limit allowed for temporary power frequency voltages at a connection point.

### Gas rules under consideration at 30 June 2011

GAS RULE CHANGE REQUEST	PROPONENT	INITIATED	CATEGORY	STAGE AT 30 JUNE 2011
Various hedging instruments in the declared wholesale gas market	AEMO	24 February 2011	Normal	Consultation underway on the draft rule.  The key purpose of this draft rule is to enable Victoria's Declared Wholesale Gas Market to operate more efficiently by improving the management of financial risks related to the buying and selling of wholesale natural gas.
STTM Brisbane hub	AEMO	16 June 2011	Fast track	Consultation underway on the draft rule.  The key purpose of this draft rule is to reduce implementation and operational costs for the Brisbane Short Term Trading Market in natural gas.

### Formal 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.

During 2010-2011, the AEMC, together with its independent Reliability Panel, undertook 12 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. Of the 10 market reviews undertaken by the AEMC, six were completed this year and four continued into 2011-2012. Two market reviews were undertaken and completed this year by the AEMC's Reliability Panel.

Over time the AEMC has initiated a growing number of reviews, reflecting the growth of its market development role. This year we initiated three reviews on priority market development matters.

The Ministerial Council on Energy requested that we undertake five formal market reviews in addition to separate requests for advice throughout the year. The separate requests for advice are not categorised as formal market reviews as they do not involve formal stakeholder consultations.

Four reviews were required by the rules as part of our statutory obligation to report periodically on specific features of the energy market.

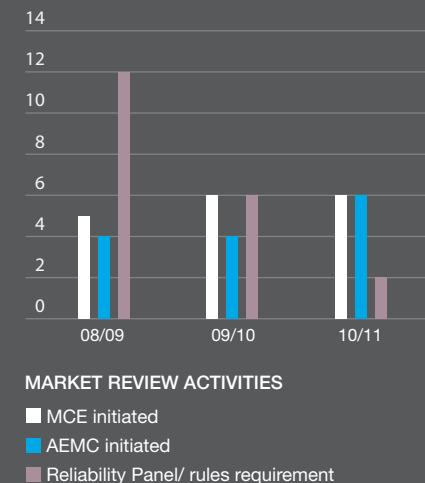
### Advice for governments

In addition to the formal market reviews requested by the Ministerial Council on Energy there are times when the MCE seeks our involvement in broader market issues, such as the impact of carbon policy options on the energy markets. The nation's energy ministers have asked us to provide them with advice across a range of matters. The complexity of the interactions of broader policy initiatives, economic developments and the energy market, both nationally and internationally, have required us to engage beyond energy market stakeholders alone and is requiring us to develop our dedicated research capabilities.

During this year the AEMC prepared a number of letters of advice to energy ministers and members of the federal Multi-Party Climate Change Committee. These letters regarded aspects of energy security under the Australian Government's Clean Energy Future Package and were published by the Federal Department of Resources, Energy and Tourism on its website.

This year the Ministerial Council for Energy requested that we provide and publish the following advice.

- On 29 March 2011 Professor Ross Garnaut published an update paper, Transforming the Electricity Sector. It contained his recommendations for electricity market reform to help achieve the Australian Government's climate change objectives. The AEMC prepared advice on this Garnaut update paper for the meeting of the Council of Australian Governments Standing Council on Energy and Resources held 10 June 2011. Following the briefing of 10 June 2011 the ministers requested that the AEMC release the document on its website.
- The Ministerial Council on Energy (MCE) requested the AEMC to report on trends in residential electricity price movements over the next three years. On 10 June 2011, the AEMC published its 'Future Possible Retail Electricity Price Movements: 1 July 2010 to 30 June 2013' report. This report sets out future possible retail electricity prices and the drivers of these prices at a national level and in each state and territory in Australia from 2010-11 to 2012-13. Actual electricity prices and cost components in 2009-2010 were used as a base year for comparison.



## year in review

### Market reviews undertaken in 2010-2011 at a glance

AEMC	PROPONENT	START DATE	END DATE	STATUS AT 30 JUNE 2011
Request for advice – cost recovery for mandated smart meter infrastructure	MCE	19 November 2009	22 December 2010	Completed
Review of the effectiveness of competition in the electricity retail market in the ACT	MCE	4 March 2010	3 March 2011	Completed
Transmission frameworks review	MCE	20 April 2010	Continuing	Consultation on directions paper
Power of choice – giving consumers options in the way they use electricity.	MCE	29 March 2011	Continuing	Consultation on issues paper
Review into the use of total factor productivity for the determination of prices and revenues	MCE	21 November 2008	Continuing	Preparation of final report
Review into the role of hedging contracts in the existing NEM prudential framework	AEMC	3 March 2009	27 July 2010	Completed
Compensation claim from Synergen Power	Rules requirement	24 March 2010	8 September 2010	Completed
Last resort planning power – 2010	Rules requirement	1 July 2010	10 November 2010	Completed
Review of the compensation guidelines	AEMC	28 October 2010	17 February 2011	Completed
Review of arrangements for compensation following an administered price, market price cap or market floor price.	AEMC	26 May 2011	Continuing	Consultation on issues paper
<b>RELIABILITY PANEL</b>				
Annual market performance review 2010	Rules requirement	23 September 2010	23 December 2010	Completed
Review of the reliability and emergency reserve trader	Rules requirement	5 July 2010	21 April 2011	Completed

## Market reviews completed in 2010-2011

REVIEW NAME	WHY WAS THE REVIEW CONDUCTED?	OVERVIEW	KEY CONCLUSIONS
Review of the compensation guidelines	<p>Following the practical application of the compensation guidelines in determining Synergen Power Pty Ltd's compensation claim in September 2010, it was recognised that the compensation guidelines required updating.</p> <p>The rules provide that the AEMC may, from time to time, amend or replace the compensation guidelines in accordance with the transmission consultation procedures.</p> <p>This review informed those amendments.</p>	<p>The Review of the Compensation Guidelines considered those areas of the compensation guidelines which presented practical implementation challenges during the processing of the Synergen Power Pty Ltd compensation claim.</p> <p>This included, amongst other things, the confidentiality section of the guidelines and the principles the Commission will apply in exercising its discretion to recover any costs from a claimant in assessing a claim.</p>	<p>The review made several amendments to the compensation guidelines to ensure they are consistent with the AEMC's obligations under the relevant legislation, reflect experience gained following the practical application of the guidelines, and provide increased regulatory certainty, transparency and consistency for potential claimants and stakeholders.</p>
Compensation claim from Synergen Power	<p>The rules provide for eligible market participants to claim for compensation due to the application of an administered price cap, market price cap, market floor price or administered floor price. In accordance with the rules, the Commission must determine whether compensation is payable, and if so, the amount of compensation payable to a claimant.</p>	<p>Synergen Power lodged a claim for compensation in relation to the administered price cap in South Australia from 29 January 2009 to 7 February 2009. Synergen Power claimed compensation for the generation output from its Port Lincoln gas turbine and Snuggery power station, both located in South Australia.</p> <p>This was the first compensation claim to be considered by the Commission under clause 3.14.6 of the rules</p>	<p>The Commission decided that compensation was payable by AEMO to Synergen Power in respect of its claim. Compensation payable was \$130 486.94</p>
Last Resort Planning Power 2010 review	<p>The rules contain a requirement for the AEMC to report annually on the matters it has considered in deciding whether or not to exercise the LRPP. This review informed that reporting for 2010.</p>	<p>The Last Resort Planning Power 2010 Review examined whether TNSP planning had responded to inter-regional network congestion as identified in national planning documents.</p>	<p>The 2010 LRPP review found that there was no apparent "gap" between identified inter-regional transmission congestion and planning processes to address this congestion. Accordingly, the AEMC decided that there was no need for it to exercise the LRPP in 2010.</p>

## year in review

REVIEW NAME	WHY WAS THE REVIEW CONDUCTED?	OVERVIEW	KEY CONCLUSIONS
Role of hedging contracts in the existing NEM prudential framework	This review was initiated by the AEMC to develop feasible solutions to risks which had been identified by consideration of an earlier rule change proposal relating to futures offset arrangements.	<p>Australia's wholesale electricity market supplies around 8.5 million customers across the eastern seaboard and has around \$11 billion annual trading turnover. Because of the nature of electricity demand and because electricity cannot be stored it is a market of highly volatile prices and complex financial arrangements. The AEMO collects from retailers to pay generators. Retailers provide bank guarantees – to provide prudential assurances to AEMO. They also manage their market risk through over the counter and futures contracts:</p> <p>This review focussed on the need to:</p> <ul style="list-style-type: none"> <li>• protect NEM prudential standards; and</li> <li>• address the desire of companies to participate in the market while lowering their costs by using financial instruments.</li> </ul>	<p>The final report (27 July 2010) recommended that:</p> <ul style="list-style-type: none"> <li>• Existing and proposed reallocation offset arrangements be continued with some enhancements through changes to the rules and AEMO procedures;</li> <li>• An appropriate prudential margin be maintained where load is offset by internal generation;</li> <li>• FOAs be integrated in the NEM prudential framework, subject to AEMO establishing an appropriate prudential margin and undertaking further assessment of benefits and impact on the prudential quality of the NEM (following AEMO's review into energy market prudential readiness); and</li> <li>• AEMO continue work in the area of improvements to maximum credit limit methodology as part of its Energy Market Prudential Readiness Review.</li> </ul>
Request for advice – cost recovery for mandated smart meter infrastructure	In November 2009, the MCE requested advice on whether Chapter 6 of the National Electricity Rules efficiently accommodates cost recovery for smart metering infrastructure which is mandated by a ministerial determination.	<p>This request followed changes to the National Electricity Law, enabling energy ministers to require distributors to roll-out smart meters and undertake pilots and trials of smart meters and related technologies.</p> <p>Matters to be covered included:</p> <ul style="list-style-type: none"> <li>• how the Australian Energy Regulator would determine the level of allowed revenue to compensate distributors for mandated smart metering infrastructure expenditure;</li> <li>• how costs should be translated into customer tariffs and whether the rules allow the tariff impact of a mandated smart meter roll-out to be smoothed.</li> </ul>	<p>The final report of 22 December 2010 concluded that existing processes for cost recovery were adequate for mandated smart metering infrastructure, and recommended some incremental changes including:</p> <ul style="list-style-type: none"> <li>• Requiring distributors to report annually to the AER on the actual costs and benefits of mandated smart meter roll-outs, pilots and trials;</li> <li>• The inclusion of a new interim determination process for AER if an electricity distributor is required to undertake a mandated smart meter rollout but these costs have not been provided, including a new revenue adjustment to ensure that electricity distributors are neutral to any differences between the forecast and actual timing of mandated smart meter roll-outs.</li> </ul>

## year in review

REVIEW NAME	WHY WAS THE REVIEW CONDUCTED?	OVERVIEW	KEY CONCLUSIONS
Review of the effectiveness of competition in the electricity retail market in the ACT	Under the Australian Energy Market Agreement (AEMA) the AEMC is required to assess and publicly report on the effectiveness of retail competition in electricity and gas retail markets in each jurisdiction (except Western Australia).	In December 2009 the MCE asked us to assess the effectiveness of competition in the ACT's electricity retail market. The territory's retail gas market was not assessed because it is not subject to retail price regulation in the territory. The review was conducted in two stages. The first – to establish if competition was effective. Second – to provide advice on ways to promote growth of effective competition and phase out retail price regulation if competition was in fact found to be effective.	<p>Competition had been effective in the past and through a package of reforms could be effective again. To achieve effective competition the AEMC recommended:</p> <ul style="list-style-type: none"> <li>• Introduction of an education program for small consumers;</li> <li>• Promotion of a consumer education website;</li> <li>• Monitoring of the effectiveness of customer protection and supplier switching arrangements;</li> <li>• Harmonisation of regulatory arrangements between the ACT and other jurisdictions;</li> <li>• Removal of retail price regulation for small electricity consumers from 1 July 2012 with price monitoring to follow.</li> </ul>
Review into the use of total factor productivity for the determination of prices and revenues	<p>The need for this review was identified as a priority by the AEMC following its consideration of initial submissions on the rule change proposal, Total factor productivity for distribution network regulation, lodged by the Victorian Minister for Energy and Resources on 23 Jun 08.</p> <p>The AEMC initiated this review in response to submissions on a rule change proposal from the Victorian Minister for Energy and Resources.</p>	<p>This review was announced on 21 November 2008 to consider the application of a TFP methodology to the economic regulation of services provided by electricity and gas distribution and transmission service providers. A TFP methodology is an alternative form of applying incentive regulation to determining regulated prices or revenues for electricity and gas service providers compared to the prevailing building block approach. The AEMC will look at the possible range of models for applying TFP and will assess the issues relevant to the rule change proposal.</p> <p>The review investigated whether the national electricity and gas rules should be amended to permit the use of TFP methodology for the regulation of electricity network and gas pipeline revenues and prices.</p>	This review concluded immediately following the close of the year under review in July 2011. The AEMC found that using a TFP-based methodology could contribute to improvements in electricity and gas network regulation to achieve more efficient outcomes for consumers. Before the implementation of TFP-based network regulation could be considered, more consistent and robust data on network business' inputs and outputs needs to be collected and reported to the regulator. This data will improve the application of the current regulatory framework.

## year in review

REVIEW NAME	WHY WAS THE REVIEW CONDUCTED?	OVERVIEW	KEY CONCLUSIONS
Annual market performance review 2010	This annual review is conducted to examine the performance of the National Electricity Market in terms of reliability, security and safety.	The review examines events and activities that have either positively or adversely affected the supply of electricity to consumers and assesses the performance of these aspects.	<p>The review found there was no unserved energy due to reliability events in 2009-2010. The level of market capacity and the actions of AEMO were appropriate to maintain the reliability of the power system. Since the market started in December 1998, the averages for USE due to shortfalls in available capacity indicate that all regions have remained within the reliability standard.</p> <p>National peak demand in both summer and winter was lower than the previous year. In general, the accuracy of reserve projections and demand forecasts was similar, or slightly improved, compared with 2008-2009.</p> <p>During 2009-2010, AEMO did not exercise the Reliability and Emergency Reserve Trader, but did issue two directions for reliability.</p> <p>Four major incidents involving multiple contingency events were discussed in the report. The Reliability Panel noted that AEMO took appropriate actions to maintain the security of the power system during these incidents. The Panel was not aware of any occasions where AEMO had not achieved its National Electricity Law and rules obligations with regards to safety in the NEM.</p>
Review of the Reliability and Emergency Reserve Trader	The Reliability Panel was required to review the need for the RERT by 30 June 2011.	The RERT is a mechanism in the rules that allows AEMO to contract for capacity when a shortfall of reserve is projected, up to nine months in advance. The RERT currently has a sunset date in the Rules of 30 June 2012.	The Reliability Panel recommended that the RERT expire on 30 June 2013 without further review. It considered that the RERT is not required. Market performance to date has adequately ensured reliability, while forecasts expect sufficient reserves to maintain reliability for a number of years in most regions.

## Market reviews current at 30 June-2011

REVIEW NAME	WHY WAS THE REVIEW CONDUCTED?	OVERVIEW	KEY PRELIMINARY FINDINGS
Transmission frameworks review	<p>Transmission networks form the backbone of the national electricity grid. Although they only account for about 10 per cent of the overall costs of electricity, transmission networks play a key role in transporting power from generators to consumers and in facilitating competition between generators so that consumers can be provided with electricity at the lowest possible cost.</p> <p>Substantial new investment in electricity services, including transmission and generation is required to maintain secure and reliable power supplies. Policies such as the expanded Renewable Energy Target and proposals for a price on carbon are expected to drive new investment in renewable and low carbon generation.</p> <p>These factors could lead to changes in patterns of generation and network flows. It is critical that arrangements governing the transmission sector are robust and that investment in transmission networks is timely and efficient, and that the best use is made of transmission assets once they have been constructed.</p>	<p>No-one knows with any certainty what the future supply of electricity will look like in Australia. Wind, wave, gas, coal, and other technologies will compete for their place as a proportion of overall generation.</p> <p>The role of this review is not to try and define that future but to develop the best framework to underpin whatever transformation eventuates.</p> <p>We are reviewing the role of the transmission sector in providing services to the competitive parts of the electricity market. The review will consider transmission planning, network charging, the nature of access, connection arrangements and network congestion. We are focussed on the need to develop a framework which is robust enough to accommodate a range of plausible investments which will see new technologies in new locations which are best suited to the nation's future needs.</p>	<p>First interim report was being prepared at 30 June 2011.</p> <p>This year we published an issues paper followed by a directions paper that scoped this review.</p> <p>Submissions revealed a diverse range of views on the robustness of current transmission frameworks and their interaction with the generation sector.</p> <p>A first interim report is scheduled to be published later in 2011. Following an extension, we are required to report back to the MCE with recommendations in mid 2012.</p>

## year in review

REVIEW NAME	WHY WAS THE REVIEW CONDUCTED?	OVERVIEW	KEY PRELIMINARY FINDINGS
Review of arrangements for compensation following an administered price, market price cap or market floor price	<p>This review will consider the operation and effectiveness of the current compensation arrangements set out under clauses 3.14.6 and 3.15.10 of the Rules.</p> <p>The AEMC's Terms of Reference for this review set out the issues which will, at a minimum, be considered. These issues were identified during the resolution of the compensation claim by Synergen Power Pty Ltd, which was determined by the AEMC in 2010 and is the only claim to date under these provisions.</p>	<p>The AEMC is initiating this review to ensure that specific aspects of the market frameworks which provide investment signals and manage the risks to market participants caused by periods of high wholesale market prices are robust and effective.</p> <p>The objectives of this review are to:</p> <ul style="list-style-type: none"> <li>• ensure that the compensation provisions in the Rules are aligned with the objectives of paying compensation; and</li> <li>• where appropriate, remove ambiguities and improve the effectiveness, transparency and consistency of arrangements in the rules for determining and paying compensation under clauses 3.14.6 and 3.15.10.</li> </ul>	<p>At 30 June 2011 consultation was underway with submissions to first issues paper due by 7 July 2011. In May 2011, the AEMC published an issues paper for this review. The purpose of the issues paper was to seek stakeholder comments on the scope of the review and the issues that will be addressed.</p>
Power of choice – giving consumers options in the way they use electricity.	<p>The pattern of electricity demand in the National Electricity Market has changed. Peak demand is growing fast. This puts pressure on the power system's ability to meet demand unless there is significant investment in more generation and expanded network capacity which will cost everyone more. This review is exploring options for better management of electricity demand by a wide range of consumers including households, small to average sized businesses and large industries.</p>	<p>The objective of this review is to identify opportunities for consumers to make informed choices about the way they use electricity. Peak demand for electricity has been growing much faster than average demand. The cost of generation to supply that peak demand is very high. It is important that the investment needed to meet the peak is no higher than necessary. Some drivers for peak demand could be attributable to rapid growth of house-sizes and electrical appliance consumption which increases household energy use at certain times of the day and year – the review will examine options for managing new consumption patterns like these. This review will consult stakeholders to develop realistic options for market development. It will focus on proposals for better product-performance information, technology and pricing and it will make connections between what needs to change in the market to make efficient consumption possible.</p>	<p>At 30 June 2011 the review had published its first issues paper and called for the first round of public submissions. Stakeholder comment was sought on:</p> <ul style="list-style-type: none"> <li>• Factors that promote consumer interest and willingness to manage their electricity consumption;</li> <li>• Views and evidence on current and likely opportunities available to consumers to manage their electricity consumption;</li> <li>• The types of features (market conditions) that might be needed to facilitate consumers to take up cost effective demand side opportunities;</li> <li>• Requirements for other parties to invest efficiently so that there is increased confidence that demand and supply options are given equal weight in the community's demand for energy services; and</li> <li>• The AEMC's approach and methodology for the review.</li> </ul>



# EXPERT PANELS

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Consumer Advocacy Panel 38

# expert panels

**The National Electricity Law establishes the AEMC's Reliability Panel. The Reliability Panel monitors, reviews and reports on the safety, security and reliability of the national electricity system.**

## AEMC Reliability Panel

The AEMC Reliability Panel is chaired by an AEMC Commissioner and its members broadly represent all stakeholders interested in the operation of the electricity market including generators, network service providers, consumer groups and AEMO. From time to time the Panel forms working groups when specific technical experts are required to provide advice.

A new Panel of members started their terms of appointment on 1 January 2011.

These members continue the panel's important contribution to the security and reliability of electricity supply in the wholesale market. In particular, the Panel membership now includes a wider range of expertise on financial and demand side response issues.

## Purpose and work of the Reliability Panel

The Panel is responsible for developing and publishing power system standards and guidelines to help AEMO perform its power system security and reliability functions. The Panel's work program is controlled by the terms of references that it receives from the AEMC and from the requirements in the National Electricity

Rules. The AEMC may also ask the Panel for advice on AEMC reviews.

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. Every four years, the Panel determines the standard for unserved energy and recommends the level of the market reliability settings expected to achieve this reliability standard. The market reliability settings are the market price cap, 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.

The Panel also reviews and determines the power system security and reliability standards (including the reliability standard and the frequency operating standards for the NEM mainland and for Tasmania). The Panel is responsible for determining the standard for system restart, if a major blackout happens. It 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 direct AEMO's management of aspects of power system security and the reliability of supply. These include the guidelines for the management of electricity supply shortfall events.

Each year the Panel prepares and publishes an annual market performance review which 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 may have occurred and may recommend measures to mitigate against similar incidents in the future.

Since the start of the AEMC the Reliability Panel has:

- reviewed the principal market parameters on three occasions 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 principles for 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.



## ZAEEN KHAN, SENIOR ADVISER

Zaeen comes to us from the Queensland Competition Authority. Prior to that, he was with the Independent Pricing and Regulatory Tribunal of New South Wales. Zaeen's particular area of focus has been the regulated retail electricity pricing frameworks and the economic regulation of electricity distribution network businesses. He has also worked at the former Commonwealth Department of Industry, Science and Resources. Zaeen's academic background includes degrees in economics and law.

## expert panels

The Reliability Panel undertakes broad consultation on its program and specific reviews.

### Membership

The Chairman of the Reliability Panel in the year under review was AEMC Commissioner Mr Neville Henderson.

AEMO's Chief Executive, or a delegate, has a permanent position on the Panel. Mr David Swift has been appointed AEMO 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. In addition, the current Panel members provide expertise on financial and demand side response issues.

New Panel members took up their positions in January 2011. The appointments of current members will expire in December 2013 with the exception of Mr Neville Henderson whose term expires on 2 November 2012 and Mr David Swift, whose term is continuing (as AEMO has a permanent seat on the Reliability Panel).

### Panel member attendance for financial year 2010/11

1 July 2011 – 31 Dec 2011 (Panel memberships expired 31 Dec)

MEMBER	ORGANISATION	ELIGIBLE	ATTENDED
Neville Henderson (Chairman)	AEMC	4	4
David Swift	AEMO	4	3
Gordon Jardine	Powerlink Queensland	4	2
Hugh Gleeson	United Energy	4	4
Stephen Orr	International Power	4	4
Tim O'Grady	Origin Energy	4	3
Mark Grenning	Rio Tinto	4	3
Gavin Dufty	St Vincent de Paul Society, Victoria	4	2

1 January 2011 – 30 June 2011 (All Panel memberships (except Mr Henderson and Mr Swift) were renewed and now expire on 31 Dec 2013)

MEMBER	ORGANISATION	ELIGIBLE	ATTENDED
Neville Henderson (Chairman)	AEMC	4	4
David Swift	AEMO	4	3
Chris Murphy	Secure Energy	4	4
Andrew Nance	St Kitts Associates	4	3
Mark Grenning	Rio Tinto	4	3
Simon Bartlett	Powerlink	4	2
Tim O'Grady	Origin Energy	4	4
Stephen Orr	International Power	4	3
Trevor Armstrong	Ausgrid	4	3
Nick Sankey	Commonwealth Bank	4	4

### Consumer Advocacy Panel

**A completely independent body, the Consumer Advocacy Panel, is established under the AEMC Establishment Act and is accountable to the Ministerial Council on Energy.**

The Consumer Advocacy Panel (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 supports and initiates research into issues of benefit to energy consumers.

The CAP's annual report is provided as an appendix to this report.

The CAP's Executive Director is responsible for the management of its functions and for the provision of strategic and operational advice to panel members. The AEMC provides CAP's staff, including the Executive Director, in accordance with CAP decisions on a cost recovery basis.



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# our people

**AEMC people are committed to developing efficient energy markets which operate cost-effectively in the long term interests of Australian energy consumers. Our expert team conducts independent research which is the foundation of our rule making and impartial advice to federal, state and territory governments.**

## Recruitment

In the year under review we expanded our team in order to support our expanded role and responsibilities.

Vacant positions are advertised internally and externally. While we need to supplement our skills from both the local and international market the AEMC seeks to provide development opportunities and career paths for its staff. We have focused our search both in Australia and overseas for applicants with specific energy sector expertise as well as interpretive and analytical skills. Today the AEMC staff is a broad-based team of electricity and gas sector professionals including economists, engineers, lawyers, regulatory and policy advisers and corporate services specialists.

## Building capabilities

This year we continued the task of growing the capabilities of our people, which is high on our list of organisational strategies.

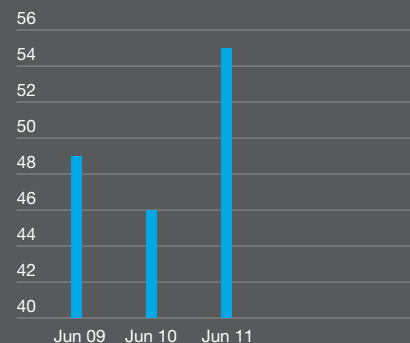
Training offered to employees included courses on wholesale electricity market, gas market, project management, principles of economic network regulation, occupational health and safety, decision making, giving and receiving feedback, workplace bullying and harassment, leadership and effective delegation.

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 and supported by the organisation, is accompanied by objective one-on-one feedback sessions and reviews including coaching/mentoring by other members of staff.

## Expanding specialist positions

This year the senior management team created the new position of Director (Technical Specialist) within the Strategy and Economic Analysis team. This position provides specialist energy sector engineering counsel to all the policy teams and to the commissioners. This role is also responsible for engaging at a technical level with industry stakeholders.

The AEMC's internal gas committee was established in March 2011 to promote the



AEMC EMPLOYEE NUMBERS 2009-2011

■ No. of employees



EMPLOYEES GROUPED BY ROLE AT JUNE 2011

- Commissioners and CE 4 (7%)
- Core rules and market development 40 (73%)
- Corporate support 9 (16%)
- Consumer Advocacy Panel 2 (4%)



**CLAIRE ROZYN, ADVISER**

Claire started her career in the energy sector in England where she spent nearly six years at the UK gas and electricity regulator, Ofgem. As a senior economist in the wholesale markets team, Claire worked on a number of projects focused on the promotion of competition in the UK wholesale energy market including on issues in respect of third party access to gas storage, the UK gas balancing rules, and various gas and electricity code decisions. She also led a small team responsible for developing the 2010 gas system operator incentive scheme. Claire joined the AEMC in May 2010 as part of the Wholesale, Environment and Transmission team. She recently moved to the Technical and Reliability policy group where her work will focus on arrangements for distribution network planning. She has a BEc (University of NSW) and a Postgraduate Diploma in Economics for Competition Law from Kings College London.

## our people

development of our knowledge and to identify natural gas issues requiring consideration and analysis. Gas committee members attend AEMO's gas market forums and similar stakeholder meetings.

### Graduate programs

This year we created and filled our first graduate adviser position. This is a rotation position and the graduate adviser spends six months working with each policy team.

Also in the year under review the AEMC joined the University of New South Wales Co-Op Program. As part of this program students will attend work placement at the AEMC.

### Leaders for the future

During the year senior directors and directors commenced a new management and leadership development program. This program forms an important part of the long term commitment of the AEMC to staff development at all levels of the organisation. It highlights core management and leadership skill development and consists of workshops, and 360 feedback / coaching sessions. Its objective is to foster the skills and management approaches that benefit all our staff.

Our values are already very focussed on integrity, and engagement to help deliver

its goal to provide leadership in community and government debates on energy market development. This program is another measure to extend the internal capacity of our organisation by focusing on the importance of individuals and their personal growth as they contribute to the AEMC's work program day by day.

### Performance development

All employees complete an annual performance review with their managers. The review sets specific goals and objectives for the year ahead and reviews the previous year's performance. Outcomes from the performance reviews are reflected in employees' annual remuneration reviews.

### Diversity and equal opportunity

Our commitment to diversity is demonstrated by our 51 per cent representation of women in our workforce as well as the diversity in the backgrounds of our staff. This is reflected in our senior management team where three of the seven leaders are women.

### 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 includes representatives from both staff and senior management.

### Wellbeing

The AEMC is committed to building a strong and sustainable organisation – particularly given the obligations in our expanding work program to meet statutory deadlines. We stress the importance of work-family balance for our staff and offer health seminars throughout the year including health checks and a winter vaccination clinic.



AEMC EMPLOYEES BY GENDER JUNE 2011

■ Male 27  
■ Female 28



AEMC EMPLOYEES BY EMPLOYMENT STATUS JUNE 2011

■ Full time 49  
■ Part time 6



# GOVERNANCE

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# governance

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**All of our efforts are to provide the framework that will deliver efficient investment in the use and operation of electricity and gas services in the interest of consumers.**

Our reputation is fundamental to our ability to effectively perform our roles as rule maker and market developer.

Accordingly we place great importance on building responsible business practice and good governance into our management processes and into all our decisions.

Good governance promotes achievement and continual improvement. It emanates from the formal processes around decision making within our organisation and – more importantly – from our culture.

Our approach to governance aims to provide an operating environment which promotes integrity and accountability in all aspects of our operations.

Our key principles involve legislative compliance, application of a consistent policy framework, accessibility of documentation and assurance activities to test for new exposures from breaches of governance standards.

The AEMC's role, reporting responsibilities and "constitution" are unique. We have developed a fit for purpose governance

framework and to do this we have looked at global best practice models.

The AEMC's governance framework establishes our strategic direction, ensures effective risk management and compliance within the spirit and intent of the law and provides a healthy and safe working environment for all employees and visitors.

## Strategic and business Issues

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

A challenge for the AEMC is the increase in the intensity and pressure of the workload, particularly given the growing diversity of our stakeholders and the energy market issues with which we deal.

In a sense, this is a natural evolution of our role. We have matured as an organisation and are increasingly called upon to engage in work and stakeholder consultation beyond the formal rule making and review function.

We expect the demands on our role to increase when we acquire responsibility for the National Energy Retail Rules in 2012.



### ELISABETH ROSS, SENIOR ADVISER

Elisabeth joined the AEMC in 2009 following several years at NERA Economic Consulting in both the firm's Sydney and London offices. As a consultant at NERA Elisabeth provided regulatory and strategic advice and analysis to clients in the energy, transport and environment sectors across Australia, the United Kingdom, New Zealand and Indonesia. Since joining the AEMC Elisabeth has primarily focussed on complex issues arising in the electricity transmission area, including contributions to the Review of Energy Market Frameworks in light of Climate Change policies, the Scale Efficient Network Extensions Rule change request and the ongoing Transmission Frameworks Review. Elisabeth holds a BCom in Economics and an MEd (Hons). "Working on the Climate Change Review and a major rule change focussed on connecting renewable generators to the national network has been interesting and challenging. I enjoy the opportunity to be involved in current policy debate on these complex issues. The AEMC allows me to extend myself professionally while maintaining a work-life balance," she says.



### SLAVKO JOVANOSKI, DIRECTOR

Slavko is a new director responsible for developing greater awareness by AEMC staff of key issues affecting energy retailers and consumers. "It is great being part of an organisation that recognises the net economic and social benefits that an efficient and responsive retail energy market can deliver," he says. Slavko is our representative on the Joint Implementation Group for the new National Energy Customer Framework and is helping lead our transition to responsibility for retail customer rules. He comes to us from Logica and The Marketplace Company where he designed, developed and administered gas retail markets for New South Wales, Australian Capital Territory, South Australia and Western Australia as well as environmental markets. Slavko holds Bachelor and Master of Commerce degrees from the universities of Wollongong and New South Wales.

In particular this year we have focussed on developing the organisation to:

- expand our educative role;
- ensure we have the new skills required for the administration of the National Energy Customer Framework;
- grow the leadership skills of directors to support the emerging strategic role being taken by senior directors; and
- ensure ownership and accountabilities for outcomes across all levels of the organisation.

### Strategic objectives

We set the following strategic objectives for 2011-2012:

OBJECTIVE	REASONS	KEY INITIATIVES
Inform energy policy development.	To progress the economic efficiency of energy markets and ultimately the long-term interests of energy consumers.	<ul style="list-style-type: none"> <li>• Build enhanced information gathering and analytical capabilities.</li> <li>• Broaden stakeholder engagement and relationships beyond direct market participants.</li> <li>• Tailor clear communications.</li> </ul>
Perform our statutory functions effectively and efficiently.	To maintain best practice in our core functions while progressively increasing our capabilities and reputation.	<ul style="list-style-type: none"> <li>• Monitor and evaluate current applications of statutory framework and identify opportunities for improvements.</li> <li>• Continue building capacity in and relationships with the natural gas sector.</li> <li>• Continue strengthening internal quality assurance.</li> </ul>
Strengthen our performance based culture.	To ensure we have the capability and capacity to respond to needs in the future and to absorb new responsibilities.	<ul style="list-style-type: none"> <li>• Continual evaluation of skills gaps.</li> <li>• Monitor application of decision-making and delegations process and recommend new efficiencies.</li> <li>• Extend development programs and succession planning.</li> </ul>

### International Confederation of Energy Regulators (ICER)

The AEMC is a member of the International Confederation of Energy Regulators (ICER). ICER is an international body representing over 200 regulatory authorities around the world which was established following the fourth world forum on Energy regulation held in 2009. ICER's aim is to improve public and policy maker awareness and understanding of energy regulation and its role in addressing a wide spectrum of socio-economic, environmental and market issues. The benefits from this membership are broad and include the sharing of experiences and developments with other market institutions around the world. The AEMC representative on the ICER Steering Group is our Chief Executive, Mr Steven Graham.

### Stakeholder engagement

It is simply not possible for us to act in the long term interest of consumers and be an evidence-based organisation without the input of our stakeholders. In our conversations with stakeholders we always strive to listen with an open mind. We establish relationships based on mutual understanding and we work to ensure the clear articulation of reasons behind all our decisions.

### Understanding our stakeholders

Public consultation is integral to all our reviews and every rule change proposal. This consultation involves both formal and informal discussions as well as the conduct of public forums and consumer surveys in cities around the nation.

As part of our rule making and in conducting reviews we seek public submissions which are considered in our determinations and advice. All submissions to our work program are published on our website (subject to the AEMC considering any claim of confidentiality). This year we addressed 345 written submissions to all projects undertaken throughout the year under review (compared with 313 in 2009-2010).

While submissions vary significantly both in terms of material covered, size and depth of analysis, it is apparent that the complexity of issues raised has increased the amount of analytical effort required to properly evaluate them.

In addition to meeting our obligations to undertake statutory consultation we have embarked on a wider program of engagement which is focused on our objective to spend more time listening to the concerns and experience of others in the energy sector. This takes the form of face to face meetings with both supply and consumer businesses and individuals and associations representing these stakeholders.

**The AEMC is the body responsible for advising the Ministerial Council on Energy so it is important for us to explain our views and maintain close working relationships with community, industry and governments.**

STAKEHOLDER	OUR ENGAGEMENT
Ministerial Council on Energy (MCE)	<p>The AEMC engages with energy ministers and reports regularly on our work and emerging issues for gas and electricity markets.</p> <p>We share our views at MCE meetings and regularly update jurisdictional officials who support the MCE on stakeholder views related to opportunities, risks and challenges facing the energy sector.</p>
Jurisdictional governments, their departments and regulators	<p>Formal quarterly briefings are maintained with jurisdictional officials who support the MCE. We have broadened this engagement to include other agencies with an interest in the energy sector (such as environment, treasury, infrastructure and planning).</p> <p>Our commissioners and leadership team are in regular contact with the federal, jurisdictional governments and their regulators.</p> <p>The AEMC updates the National Utilities Regulators Forum annually.</p>
Governance framework bodies (AEMO and AER)	<p>Quarterly leadership team briefings with the Australian Energy Regulator.</p> <p>The Chief Executive meets regularly with his counterparts at the other market institutions.</p>
Energy market participants	<p>Public consultation is integral to all our reviews and every rule change proposal. As part of our rule making and also in conducting reviews we seek submissions from the public and all submissions are considered in our determinations and advice.</p> <p>All submissions to our work program are published on our website. Ten public consultation sessions were conducted across the country. Six were public forums and four were specially convened consultative meetings held with community and industry representatives.</p> <p>At least once a quarter our commissioners meet in each jurisdiction in rotation – taking this opportunity to hold discussions with a range of stakeholders and conduct site visits.</p>
Consumer representatives	<p>The AEMC consistently participates in meetings of the National Consumers' Roundtable on Energy which comprises all small end-user groups actively engaged in national electricity and gas markets issues.</p> <p>As we transition to responsibility for the new National Energy Retail Rules in 2012 we are gradually expanding our engagement with energy ombudsmen and other consumer advocates.</p>



## SARAH LAU, SENIOR ADVISER

Sarah joined the AEMC in late 2007 from the Commonwealth Department of Resources, Energy and Tourism. She is now a senior adviser at the AEMC and has been central to the delivery of particularly complex analysis undertaken in relation to pricing and competition in electricity retail and distribution. A large part of her work has focussed on developing national frameworks for the energy sector. In particular she has contributed to the Commission's first national retail electricity price movements report, the national framework for electricity distribution network planning and expansion review, and the development of advice on cost recovery arrangements for mandated smart metering infrastructure. Sarah holds qualifications in economics and social sciences from the University of Sydney. She is one of two AEMC senior advisers selected to attend the Florence School of Regulation course to be conducted in Italy during 2011-2012. "The AEMC has extended my professional experience considerably – I feel like I am contributing to the development of a truly national energy market."

### Commissioners

Our chairman, Mr John Pierce and the commissioners, Mr Neville Henderson and Dr Brian Spalding, have all been active participants in Australia's energy reform program since the early 1980s. Each of them played key roles in establishing the National Electricity Market and its legal and institutional arrangements.

#### **JOHN PIERCE** **Chairman**

Mr Pierce brings extensive energy market, financial market and economic policy experience to the role. He was formerly Secretary of the Federal Department of Resources, Energy and Tourism, following 12 years of service as Secretary of the New South Wales (NSW) Treasury and Chairman of the NSW Treasury Corp. Prior to his time at Treasury his energy business and operational experience was at Pacific Power and the Electricity Commission of NSW. He also has wide experience in the processes of government at state and federal levels, having worked at very senior levels in the development of policy and provision of policy advice to ministers, cabinets, ministerial councils and the Council of Australian Governments. Mr Pierce was a Visiting Scholar at Boston University during 2004-2005 working with Professor L. Kotlikoff on the economic and fiscal implications of an

ageing population and with R. D. Behr from the Kennedy School of Government. He holds a BEc Hon (UNSW).

#### **NEVILLE HENDERSON** **Commissioner**

Mr Henderson has an extensive professional background in energy and utilities. He came to the AEMC from his former position as an Executive Director with PricewaterhouseCoopers (PwC) where he provided advice to both public and private sectors on energy utility operation, regulation, strategic and business planning, electricity and gas industry restructuring, and on market issues. Prior to joining PwC Mr Henderson was with the National Grid Management Council (NGMC) 1994-1997, where he led the development of market and trading arrangements for the National Electricity Market. He was Strategic Planning and Power Pool Manager at National Electricity Victoria (1990-1993) following a series of senior roles in strategic and system planning with National Electricity Victoria and its predecessor, the State Electricity Commission of Victoria. Mr Henderson holds a BCom (University of Melbourne) and a Diploma of Mechanical Engineering (Footscray Technology College).

#### **BRIAN SPALDING** **Commissioner**

Dr Spalding has more than 30 years experience in power system operations and has had a key implementation and operational role in national and state electricity markets since their conception in the early 1990s. He has held executive level positions in Pacific Power, TransGrid and the National Electricity Market Management Company (NEMMCO). In 2008 Dr Spalding became Chief Executive Officer of NEMMCO and was responsible for the day to day operation of the National Electricity Market and the electricity power system for South and Eastern Australia. In July 2009 he became Executive General Manager Operations of the Australian Energy Market Operator (which incorporated NEMMCO, and the gas market operators of Victoria, NSW, South Australia and Queensland). Dr Spalding holds a Bachelor of Science, a Bachelor of Engineering (Electrical Honors Class 1 and University Medal) and a Doctor of Philosophy in power system analysis from the University of NSW.

### Conflicts of interest

Under Section 22 of the Australian Energy Market Commission Establishment Act 2004 (SA), commissioners must disclose any direct or indirect conflicts of interest in any matter the AEMC is considering. These disclosures are formally minuted and published on the AEMC website. The following declarations of interest were made by commissioners in 2010-2011:

Mr Pierce is appointed in a full time capacity and has no conflicts which require management.

Dr Spalding is currently a member of the Energy Saving Scheme Committee of the Independent Pricing and Regulatory Tribunal. He is also a co-chair of the Energy Infrastructure Assurance Advisory Group of the Attorney General's Trusted Information Sharing Network, and is on the board of the Australian Centre for Renewable Energy.

Dr Spalding makes the following statement about the arrangements he has put in place to manage (perceived or actual) conflicts of interest:

1. Any potential involvement on my part in matters relating to the energy sector, which are not within the jurisdiction of the AEMC would be disclosed to the Chairman of the AEMC before being involved in such matters to ensure no potential conflict may arise.

2. Confidential information obtained in my capacity as a commissioner will not be disclosed or used for purposes other than the proper purposes.

Mr Henderson has no conflicts which require management.

### Appointment and Remuneration

The Commission includes one full-time and two part-time commissioners. The chairman and one other commissioner is appointed by the AEMC's state and territory jurisdictions and one commissioner is appointed by the Australian Government.

Initial remuneration levels are set at the time of a commissioner's appointment then adjusted during the period of appointment in accordance with the relevant instruments of appointment. Annual adjustments are currently referenced to determinations made by the NSW Statutory and Other Officers remuneration Tribunal in accordance with the Chief Executive and Senior Executive Officers (SES) Report and Determination.

COMMISSIONERS	CURRENT TERM	STATUTORY MEETINGS		GOVERNANCE MEETINGS	
		ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED
Neville Henderson	19 October 2009 – 18 October 2014	39	33	14	12
Brian Spalding	19 April 2010 – 18 April 2013	39	39	14	14
John Pierce	2 June 2010 – 1 June 2015	39	36	14	11

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

### Code of conduct

Our commitment to discharging our rule making and market development roles in an effective, systematic and transparent manner is underpinned by the AEMC Code of Conduct. The Code sets out our commitment to fairness, honesty, impartiality and integrity in our dealings with all stakeholders. Its objectives are to ensure: a working environment free from bullying, 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 safe-guarded 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;
- that where employees engage in other employment or business, it neither compromises nor conflicts with their work for the AEMC.

In addition, 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.

### Audit and risk management

Risk and risk management are established concepts within the management practices of the AEMC. The AEMC identifies and manages risks that may impact the achievement of our vision. This includes risks that could affect our people, reputation, stakeholders, assets, financials and our legal position.

It is the process by which we identify, assess and manage risks to ensure opportunities are maximised, threats are minimised and we achieve the best possible outcomes from the limited resources available.

Risk management is a fundamental component of managing our operations and in the year under review we completed a revision of the risk management framework to reflect the elevated challenges now facing us in the context of energy market developments and the overall increase in stakeholder expectations of the AEMC.

Our processes to identify, assess and manage risk include:

- Audit and Risk Management Committee monitoring of the overall risk management framework, financial reporting processes, processes for compliance, performance of auditors and its oversight of the audit program.
- A broadly based risk assessment process which 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 which prioritise actions based on assessed risks.
- The identification and management of compliance areas on a functional basis with legal support where necessary.
- The project control framework which is used for all rule, review and corporate projects. This includes the creation of a risk register and the active management of identified risks.

### Commission Audit and Risk Management Committee

#### Membership & Meetings

In addition to face to face meetings the audit committee dealt with a number of matters out of session.

MEMBERS	TERM	ELIGIBLE	ATTENDED
<b>Glenn Appleyard</b> – Independent Member – Committee Chairman	1 July 2009 – 3 May 2010 From 4 May 2010	2	2
<b>Brian Spalding</b> AEMC Commissioner from 19 April 2010		2	2
<b>John Pierce</b> AEMC Chairman from 2 June 2010		2	2

### Fraud Prevention

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

### Business Continuity

The objective of the AEMC's Business Continuity and Disaster Recovery Plan is to ensure that business processes are robust and able to withstand minor business interruptions and to ensure the ongoing ability of the AEMC's to continue its operations in the event of a major business interruption.

### 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 2010-2011. All documents we publish regarding our rulemaking, 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](http://www.aemc.gov.au). They can also be inspected at our offices. A request under the Freedom of Information Act 1991 (South Australia) is not required to inspect them.

### Environment

The AEMC's 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 this year included the:

- purchasing of office equipment with powersave 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 conferencing facilities where appropriate;
- the disposal of toner cartridges through recycling programs.

### Senior Management Team

**The year under review has seen the consolidation of recent changes to the structure of the management team with a focus on ensuring that strategic analysis is of a consistent high quality across all our areas of responsibility.**

Our aim is to demonstrate effective leadership in respect of our statutory responsibility for market development – including through closer engagement with our stakeholders on strategic issues and challenges.



**STEVEN GRAHAM**  
Chief Executive

Mr Graham is the AEMC's first chief executive. Since beginning his tenure in January 2006, he has led the organisation's establishment and development. Building on his broad experience, his priority is to develop an organisation that is professional, capable, responsive and operates with high standards of governance. He has held several change management positions across the national electricity market and government, including roles in RailCorp, Eraring Energy, Pacific

Power and NSW Treasury. He is a member of the Australian Institute of Company Directors and has served on the boards of Pacific Western Pty Ltd, Mount Arthur South Pty Ltd, Energy Efficient Research Centre Ltd, Eraring Holdings Pty Ltd, Mount Arthur South Coal Marketing and Finance Pty Ltd. He holds a Diploma of Technology (Commerce) from the NSW Institute of Technology and a Company Director's Diploma from the University of New England.



**RORY CAMPBELL**  
Senior Director,  
Technical and  
Reliability Group

Dr Campbell'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 Eraring Energy he was a trader and analyst at the financial institution RMB Australia. Rory holds a PhD in pure mathematics and a BSc (Hons) from the University of New South Wales.



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

Ms Pearson'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 competition in the New South Wales retail gas market and corporatisation of the Snowy Mountains Hydro Electric Scheme. She holds a BA and LLB (Hons) from the University of Sydney.



**CHRIS SPANGARO**  
Senior Director,  
Wholesale, Environment  
and Transmission Group

Mr Spangaro has a background in law and public policy. He came to the AEMC from the NSW Independent Pricing and Regulatory Tribunal where he most recently held the position of General Manager of the NSW Greenhouse Gas Abatement Scheme, one

of the world's first mandatory emissions trading schemes. Prior to this he was the Tribunal's Program Manager, Water Pricing. Before his engagement by IPART Chris worked in the Economic Development Branch of the NSW Cabinet Office. His earlier policy work was in law enforcement and corrections. Chris has a degree in law and was admitted as a legal practitioner.



**PAUL SMITH**  
Senior Director,  
Strategy and  
Economic Analysis

Mr Smith has worked as a regulatory and competition economist focused on the European energy sector for 14 years. He joined us in September 2010 from a UK-based consultancy, Cambridge Economic Policy Associates (CEPA). At CEPA Paul worked extensively on network regulation issues and frameworks for economic regulation across a range of regulated sectors. Prior to that he worked for six years at the UK energy regulator, Ofgem, where he fulfilled a number of roles including retail price regulation and market reviews, competition policy, security of supply and wholesale market surveillance.

Paul also worked for three years at Postcomm (the UK postal sector regulator) to complete the first full price control review of Royal Mail. He holds a degree in Economics and Politics from Bristol University.



**JANE BENSON**  
General Counsel

Ms Benson's background includes 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). Jane's prior appointments include senior positions in the Australian Energy Regulator and the Competition and Consumer Policy Division of the Australian Treasury. In undertaking these roles she assisted in managing Australia's relations on competition policy with the OECD, APEC and WTO. She is admitted as a solicitor to the Supreme Court of New South Wales and the Supreme Court of England & Wales. She holds a BA and LLB from the University of Sydney.



**LOUISE STRACHAN**  
Human Resources and  
Business Manager

Ms Strachan's background managing systems and administration practices for several major law firms in both Queensland and New South Wales provides a breadth of knowledge that enhances the management of the Corporate Services team at the AEMC. Louise is responsible for the provision of services in human resources, technology and telecommunications, governance, communications and corporate infrastructure projects. Louise has also held the role of business education teacher in Queensland and holds a B Ed (Hons) from Queensland University of Technology.



# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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## INDEPENDENT AUDITOR'S REPORT



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Auditor-General's Department

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### To the Commissioners Australian Energy Market Commission

As required by section 31 of the *Public Finance and Audit Act 1987* and subsection 26(2) of the *Australian Energy Market Commission Act 2004*, I have audited the accompanying financial report of the Australian Energy Market Commission for the financial year ended 30 June 2011. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2011
- a Statement of Financial Position as at 30 June 2011
- a Statement of Changes in Equity for the year ended 30 June 2011
- a Statement of Cash Flows for the year ended 30 June 2011
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Statement of Administered Comprehensive Income for the year ended 30 June 2011
- a Statement of Administered Financial Position as at 30 June 2011
- a Statement of Administered Changes in Equity for the year ended 30 June 2011
- a Statement of Administered Cash Flows for the year ended 30 June 2011
- a Certificate from the Chairperson, Chief Executive and Finance and Risk Manager.

### The Responsibility of the Commissioners for the Financial Report

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

### Auditor's Responsibility

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

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

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

#### **Opinion**

In my opinion, the financial report gives a true and fair view of the financial position of the Australian Energy Market Commission as at 30 June 2011, 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**  
21 October 2011

# Certification of the Financial Statements

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

- comply 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
- presents a true and fair view of the financial position of the Commission as at 30 June 2011 and the results of its operations and cash flows for the financial year.

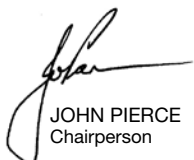
We certify that internal controls employed by the Commission for the financial year over its financial reporting and preparation of the general purpose financial statements have been effective throughout the reporting period.

Signed in accordance with a resolution of the Commission.



STEVEN GRAHAM  
Chief Executive

14 October 2011



JOHN PIERCE  
Chairperson

14 October 2011



LAURIE TRELOAR  
Finance & Risk Manager

14 October 2011

# Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011 \$'000	2010 \$'000
<b>Expenses</b>			
Employee benefit expenses	5	7,887	6,664
Supplies and services	6	7,059	5,401
Depreciation and amortisation expense	7	658	460
Grants and subsidies	8	60	571
Net loss on disposal/write-off of non-current assets	10	17	6
<b>Total expenses</b>		<b>15,681</b>	<b>13,102</b>
<b>Income</b>			
Interest revenue	11	292	258
Other revenue	12	253	231
<b>Total income</b>		<b>545</b>	<b>489</b>
<b>Net cost of providing services</b>		<b>(15,136)</b>	<b>(12,613)</b>
Contributions from participating jurisdictions	13	14,953	13,990
<b>Net result</b>		<b>(183)</b>	<b>1,377</b>
<b>Total comprehensive result</b>		<b>(183)</b>	<b>1,377</b>

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

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

# Statement of Financial Position

AS AT 30 JUNE 2011

	NOTE	2011 \$'000	2010 \$'000
<b>Current assets</b>			
Cash and cash equivalents	14	5,723	6,250
Receivables	15	4,574	3,708
<b>Total current assets</b>		10,297	9,958
<b>Non-current assets</b>			
Property, plant and equipment	16	169	258
Intangible assets	17	1,930	2,266
<b>Total non-current assets</b>		2,099	2,524
<b>Total assets</b>		12,396	12,482
<b>Current liabilities</b>			
Payables	18	1,187	947
Employee benefits	19	297	434
<b>Total current liabilities</b>		1,484	1,381
<b>Non-current liabilities</b>			
Payables	18	30	31
Employee benefits	19	176	182
Provisions	20	20	20
Other non-current liabilities	21	112	111
<b>Total non-current liabilities</b>		338	344
<b>Total liabilities</b>		1,822	1,725
<b>Net Assets</b>		10,574	10,757
<b>Equity</b>			
Retained earnings		8,557	8,740
Working capital		2,017	2,017
<b>Total Equity</b>	22	10,574	10,757

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 2011

	NOTE	WORKING CAPITAL \$'000	RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
Balance at 30 June 2009		2,017	7,363	9,380
Net result for 2009-10		–	1,377	1,377
<b>Total Comprehensive Result for 2009-10</b>		–	1,377	1,377
Balance at 30 June 2010		2,017	8,740	10,757
Net result for 2010-11		–	(183)	(183)
<b>Total Comprehensive Result for 2010-11</b>		–	(183)	(183)
<b>Balance at 30 June 2011</b>		2,017	8,557	10,574

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 2011

	NOTE	2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>			
<b>Cash outflows</b>			
Employee benefit payments		(8,020)	(6,878)
Payments for supplies and services		(7,388)	(6,112)
Payments of grants and subsidies		(60)	(582)
<b>Cash used in operations</b>		<b>(15,468)</b>	<b>(13,572)</b>
<b>Cash inflows</b>			
Receipts from participating jurisdictions		14,515	12,472
Interest received		291	251
GST recovered from the ATO		385	256
<b>Cash generated from operations</b>		<b>15,191</b>	<b>12,979</b>
<b>Net cash used in operating activities</b>	26(b)	<b>(277)</b>	<b>(593)</b>
<b>Cash flows from investing activities</b>			
<b>Cash outflows</b>			
Purchase of property, plant and equipment		–	(81)
Purchase of intangibles		(250)	(974)
<b>Cash used in investing activities</b>		<b>(250)</b>	<b>(1,055)</b>
<b>Cash inflows</b>			
Proceeds from the sale of property, plant and equipment		–	1
<b>Cash generated from investing activities</b>		<b>–</b>	<b>1</b>
<b>Net cash used in investing activities</b>		<b>(250)</b>	<b>(1,054)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(527)</b>	<b>(1,647)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>6,250</b>	<b>7,897</b>
<b>Cash and cash equivalents at the end of the period</b>	26(a)	<b>5,723</b>	<b>6,250</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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 (South Australia)*. The Commission operates in Australia from a single office in Sydney.

The Commission's key functions under the National Electricity Law and National Gas Law are to:

- a) consider Rule change proposals and the effect that such proposals may have on the national electricity and gas markets;
- b) conduct market reviews and inquiries providing analysis and recommendations to inform policy making by the Ministerial Council on Energy (MCE); and
- c) 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 Australian Accounting Standard, AASB 2009-12, 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 ended 30 June 2011. The Commission has assessed the impact of the new and amended Australian Accounting Standards and interpretations and considers that there will be no impact on the accounting policies or the financial statements of the Commission. These are outlined in Note 3.

### B) BASIS OF PREPARATION

The preparation of the financial statements requires:

- the use of certain accounting estimates and requires management to exercise its judgement in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements, these are outlined in the applicable notes;
- accounting policies to be selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported; and
- compliance with accounting policy statements issued pursuant to section 41 of the Public Finance and Audit Act 1987. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures, which have been included in this financial report:
  - i) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at reporting date, classified according to their nature. A threshold of \$100,000 for separate identification of these items applies. (refer Note 13);
  - ii) expenses incurred as a result of engaging consultants (refer Note 6);
  - iii) employees whose normal remuneration is equal to or greater than the base executive remuneration level (within \$10,000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by the entity to those employees (refer Note 5); and
  - iv) commissioner and committee member and remuneration information, where a member is entitled to receive income other than a direct out-of-pocket reimbursement (refer Notes 25 and A9).

The Commission's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accruals 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 period and presented in Australian currency.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2011 and the comparative information presented.

### C) REPORTING ENTITY

The Commission's financial statements include administered items.

Transactions and balances relating to administered items are not recognised as the Commission's income, expense, assets and liabilities.

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 General Purpose Financial Statements. Except as otherwise disclosed administered items are accounted for on the same basis and using the same accounting policies as the Commission.

### D) COMPARATIVE INFORMATION

The presentation and classification of items in the financial statements are consistent with prior periods except where specific revised accounting standards and South Australian Accounting Policy Statements has required a change.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 2 Summary of significant accounting policies (continued)

### E) ROUNDING

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

### F) TAXATION

The Commission is not subject to income tax. The Commission is liable for payroll tax, fringe benefits tax and goods and services tax (GST). Income, expenses and assets are recognised net of the amount of GST except:

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

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

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

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) EVENTS AFTER THE REPORTING PERIOD

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June 2011 and before the date the financial statements are authorised for issue, where those events provides information about conditions that existed at 30 June 2011.

Note disclosure is made about events between 30 June 2011 and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June 2011 and which may have a material impact on the results of subsequent years.

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

The following are specific recognition criteria:

#### Contributions received from participating jurisdictions

The Commission's funding is provided through contributions by the jurisdictions participating in the National Electricity Market and the National Gas Market. South Australia'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, the Commission has obtained control or the right to receive for:

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

All contributions received by the Commission have been contributions with unconditional stipulations attached and have been recognised as an asset and income when invoiced.

### I) EXPENSES

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

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

The following are specific recognition criteria:

#### Employee benefit expenses

An employee benefit expense includes all costs related to employment including wages and salaries, non-monetary benefits and leave entitlements. These are recognised when incurred.

#### Superannuation

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

## 2 Summary of significant accounting policies (continued)

### I) EXPENSES (CONTINUED)

#### Depreciation and amortisation

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential.

Amortisation is used in relation to intangible assets such as software, while depreciation is applied to tangible assets such as property, plant and equipment.

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

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimate.

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.

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	3–7
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 deducting the written down value from the proceeds of the asset sale at the time.

### J) CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are characterised as either current or non-current in nature. 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.

### K) ASSETS

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

Where an asset line item combines 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 include cash at bank and cash on hand.

Cash is measured at nominal value.

#### Receivables

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

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

#### Non-current assets

##### Acquisition and recognition

Non-current assets are initially recorded at cost plus any incidental cost involved with the acquisition. Non-current assets are subsequently measured at fair value less accumulated depreciation.

From 1 March, 2010 the Commission capitalised all non-current tangible assets with a value equal to or in excess of \$2,000 (previously \$1,500). There was no material affect to the financial statements due to this change.

##### 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 2011 as the Commission did not have non-current assets which met the revaluation criteria.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 2 Summary of significant accounting policies (continued)

### K) ASSETS (CONTINUED)

#### *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.

#### **Intangible assets**

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

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

The acquisition of, or internal development of, software is capitalised when the expenditure meets the definition 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 \$2,000 (\$1,500 if expenditure was incurred before 1 March 2010).

### L) LIABILITIES

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

Where a liability line item combines 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, GST payable, employment on-costs and Paid Parental Leave Scheme payable.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Commission. Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

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 payroll tax, workers compensation levies and superannuation contributions in respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

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

#### *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.

#### **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. In the unusual event where salary and wages and annual leave are payable later than 12 months, the liability will be measured at present value.

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 after an employee has completed 6 years of service. 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 2011 on Commonwealth Government bonds that have maturity dates approximating the terms of the Commission's obligations.

## 2 Summary of significant accounting policies (continued)

### L) LIABILITIES (CONTINUED)

#### *Employee benefit on-costs*

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

#### **Provisions**

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted for the time value of money and the risks specific to the liability.

#### *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.

#### **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.

### 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

In accordance with amendments to South Australian Accounting Policy Statements APS 4.8 within the Accounting Policy Framework II General Purpose Financial Statements Framework effective 1 July 2010, the Commission has disclosed all employees whose normal remuneration is equal to or greater than the base executive level remuneration. Previously APS 4.8 required the Commission to disclose all employees whose normal remuneration was equal to or greater than \$100,000. This change is reflected in Note 5.

The Commission changed its capitalisation threshold during 2009–10. From 1 March, 2010 the Commission capitalises all non-current tangible assets with a value equal to or in excess of \$2,000 (previously \$1,500). There was no material effect to the financial statements due to this change.

Except for Australian Accounting Standard AASB 2009–12, which the Commission has early adopted, the 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 period ended 30 June 2011.

The Commission has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of the Commission.

## 4 Economic dependency

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 on Energy in its advice of the approval of funding for 2010–11 also advised it had agreed to funding levels for 2011–12, 2012–13, 2013–14 and 2014–15 of \$19.1 million, \$18.9 million, \$19.2 million and \$20.0 million respectively to assist with revenue certainty.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 5 Employee benefit expenses

	2011 \$'000	2010 \$'000
Salaries and wages	6,413	5,369
Long service leave	89	32
Annual leave	477	412
Employment on-costs – superannuation	507	472
Payroll and Fringe Benefits Tax	335	366
Relocation expenses	66	13
<b>Total employee benefit expenses</b>	<b>7,887</b>	<b>6,664</b>

Staff are appointed under common law contracts and are not employees under the South Australian *Public Sector Management Act 1994*, which was superseded by the *Public Sector Act 2009* on 1 February 2010.

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 shown below. Remuneration includes long service and annual leave amounts paid on cessation of employment.

### REMUNERATION OF EMPLOYEES

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

	2011 NO.	2010 NO.
\$130,700 – \$140,699	3	2
\$140,700 – \$150,699	1	1
\$150,700 – \$160,699	2	3
\$160,700 – \$170,699	2	–
\$170,700 – \$180,699	1	3
\$180,700 – \$190,699	2	1
\$200,700 – \$210,699	1	1
\$210,700 – \$220,699	2	–
\$230,700 – \$240,699	–	1
\$250,700 – \$260,699	1	1
\$320,700 – \$330,699	–	1
\$330,700 – \$340,699	1	–
<b>Total number of employees</b>	<b>16</b>	<b>14</b>

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year, as established by the South Australia Department of Treasury and Finance. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was \$2,965,000 (2010: \$2,603,000). Remuneration of Commissioners is disclosed in Note 25.

In accordance with the revised South Australian Accounting Policy Framework II General Purpose Financial Statements Framework, the Commission has changed its accounting policy and now discloses all employees who receive remuneration equal to or greater than the base executive remuneration level rather than all employees who receive remuneration equal to or greater than \$100,000. The impact of this change in accounting policy is the number of employees disclosed has reduced by 13 for 2011 and 11 for 2010.

## 6 Supplies and services

	2011 \$'000	2010 \$'000
Property expenses	819	727
Information technology expenses	432	392
Accounting and audit expenses	231	248
Legal expenses	61	23
Project contractor and consultancy expenses*	3,234	2,198
Other contractor and consultancy expenses	717	765
Administration expenses	436	341
Travel and accommodation expenses	325	283
Recruitment expenses	338	131
Staff training expenses	336	151
Other	130	142
<b>Total supplies and services</b>	<b>7,059</b>	<b>5,401</b>

\* Contractor and consultancy expenses directly related to AEMC project work on rule changes, market reviews and expert panels.

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

	NO.	2011 \$'000	NO.	2010 \$'000
Below \$10,000	2	6	6	18
Between \$10,000 and \$50,000	5	115	7	172
Above \$50,000	13	2,471	8	953
<b>Total paid/payable to the consultants engaged</b>	<b>20</b>	<b>2,592</b>	<b>21</b>	<b>1,143</b>

## 7 Depreciation and amortisation expense

	2011 \$'000	2010 \$'000
<b>Depreciation</b>		
Plant and equipment	26	28
IT Infrastructure	46	48
<b>Total depreciation</b>	<b>72</b>	<b>76</b>
<b>Amortisation</b>		
Leasehold improvements	3	3
Intangibles	583	381
<b>Total amortisation</b>	<b>586</b>	<b>384</b>
<b>Total depreciation and amortisation</b>	<b>658</b>	<b>460</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

## 8 Grants and subsidies

	2011 \$'000	2010 \$'000
Consumer Advocacy Panel grants	60	571
<b>Total grants and subsidies</b>	<b>60</b>	<b>571</b>

The Commission is responsible for providing the Panel with grant funding that relates to Western Australia and Northern Territory gas advocacy and the Australian Energy Market Operator Limited (AEMO) is responsible for the electricity and gas funding relating to other States and Territories. The 2011 grant amount comprises Western Australia and Northern Territory gas advocacy funding for the last three quarters of 2010–11 and the first quarter of 2011–12. In 2010 the AEMC was responsible for all gas advocacy funding for all States and Territories.

## 9 Auditor's Remuneration

	2011 \$'000	2010 \$'000
Audit fees paid/payable to the SA Auditor-General's Department	34	23
<b>Total Audit Fees – SA Government entities</b>	<b>34</b>	<b>23</b>

### OTHER SERVICES

No other services were provided by the Auditor-General's Department.

## 10 Net loss on disposal/write-off of non-current assets

	2011 \$'000	2010 \$'000
<b>Plant and equipment</b>		
Net book value of assets disposed/written off	(11)	(3)
Net loss from disposal/write-off of plant and equipment	(11)	(3)
<b>IT infrastructure</b>		
Proceeds from disposal	–	1
Net book value of assets disposed/written off	(3)	(4)
Net loss from disposal/write-off of IT infrastructure	(3)	(3)
<b>Computer software</b>		
Net book value of assets disposed/written off	(3)	–
Net loss from disposal/write-off of computer software	(3)	–
<b>Total assets</b>		
Total proceeds from disposal	–	1
Total net value of assets disposed/written off	(17)	(7)
<b>Total net loss on disposal/write-off of assets</b>	<b>(17)</b>	<b>(6)</b>

## 11 Interest revenue

	2011 \$'000	2010 \$'000
Interest earned on bank accounts	292	258
<b>Total interest revenues</b>	<b>292</b>	<b>258</b>

## 12 Other revenues

	2011 \$'000	2010 \$'000
Recoveries from the Consumer Advocacy Panel *	253	230
Miscellaneous revenue	–	1
<b>Total other revenues</b>	<b>253</b>	<b>231</b>

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

## 13 Contributions from participating jurisdictions

	2011 \$'000	2010 \$'000
Operational funding	14,953	13,990
<b>Total contributions from participating jurisdictions</b>	<b>14,953</b>	<b>13,990</b>

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 \$4,101,000 (2010: \$3,856,000).

Total contributions include \$1,335,000 (2010: \$1,182,000) received from the South Australian Department of Transport, Energy and infrastructure (DTEI). This contribution includes \$373,000 received in advance for the 2011–12 financial year

The Commission is responsible for providing the Consumer Advocacy Panel with grant funding that relates to West Australian and Northern Territory gas advocacy and the Australian Energy Market Operator Limited (AEMO) is responsible for the electricity and gas funding relating to other States and Territories. The above contributions include \$60,000 (2010: \$571,000) funding received by the Commission for the Consumer Advocacy Panel. Refer to Note 8 for more details.

## 14 Cash and cash equivalents

	2011 \$'000	2010 \$'000
Cash at bank and on hand	213	1,112
Short-term deposits	5,510	5,138
<b>Total cash and cash equivalents</b>	<b>5,723</b>	<b>6,250</b>

### SHORT TERM DEPOSITS

Short-term deposits are made for varying periods of between one day and three months and earn interest at the respective short-term deposit rates.

### INTEREST RATE RISK

Cash on hand is non-interest bearing. Cash at bank and short-term deposits earn a floating interest rate, based on daily bank deposit rates. The carrying amount of cash and cash equivalents represents fair value.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

## 15 Receivables

	2011 \$'000	2010 \$'000
Funding receivable	4,135	3,262
Interest receivable	23	22
Prepayments	166	142
GST input tax recoverable	236	282
Other receivables	14	–
<b>Total receivables</b>	<b>4,574</b>	<b>3,708</b>

### ALLOWANCE FOR DOUBTFUL DEBTS

As at 30 June 2011, 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 and prepayments 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 refer to Note 27.

## 16 Property, Plant and Equipment

	2011 \$'000	2010 \$'000
Plant and Equipment, at cost (deemed fair value)	170	197
Accumulated depreciation, at the end of the period	(77)	(67)
<b>Total Plant and Equipment</b>	<b>93</b>	<b>130</b>
IT Infrastructure, at cost (deemed fair value)	280	394
Accumulated depreciation, at the end of the period	(215)	(280)
<b>Total IT infrastructure</b>	<b>65</b>	<b>114</b>
Leasehold improvements (deemed fair value)	20	20
Accumulated amortisation, at the end of the period	(9)	(6)
<b>Total Leasehold improvements</b>	<b>11</b>	<b>14</b>
<b>Total property, plant and equipment</b>	<b>169</b>	<b>258</b>

### IMPAIRMENT

There were no indications of impairment of property, plant and equipment at 30 June 2011.

## 16 Property, Plant and Equipment (continued)

### RECONCILIATION OF NON CURRENT ASSETS

The following table shows the movement of non-current assets during 2010–11.

	2011 \$'000	2010 \$'000
<b>Plant and Equipment</b>		
Carrying amount at beginning of the period	130	121
Additions	–	40
Disposals/write-offs	(11)	(3)
Depreciation	(26)	(28)
Carrying amount at the end of the period	93	130
<b>IT Infrastructure</b>		
Carrying amount at beginning of the period	114	125
Additions	–	41
Disposals/write-offs	(3)	(4)
Depreciation	(46)	(48)
Carrying amount at the end of the period	65	114
<b>Leasehold improvements</b>		
Carrying amount at beginning of the period	14	17
Amortisation	(3)	(3)
Carrying amount at the end of the period	11	14
<b>Total Property, Plant and Equipment</b>		
Carrying amount at beginning of the period	258	263
Additions	–	81
Disposals/write-offs	(14)	(7)
Depreciation and amortisation	(75)	(79)
Carrying amount at the end of the period	169	258

## 17 Intangible assets

	2011 \$'000	2010 \$'000
Computer software	2,903	2,742
Accumulated amortisation	(1,189)	(635)
	1,714	2,107
Work in progress	216	159
<b>Total computer software</b>	1,930	2,266
<b>Reconciliation of computer software</b>		
Carrying amount at beginning of the period	2,107	1,131
Additions	–	100
Disposals/ write-offs	(3)	–
Transfers in from work in progress	193	1,257
Amortisation	(583)	(381)
Carrying amount at the end of the period	1,714	2,107

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

## 17 Intangible assets (continued)

Intangibles include internally developed computer software for the following assets (at cost):

	2011 \$'000	2010 \$'000
<b>Reconciliation of work in progress</b>		
Carrying amount at beginning of the period	159	542
Additions	250	874
Transfers out of work in progress	(193)	(1,257)
Carrying amount at the end of the period	216	159

Intangibles include internally developed computer software for the following assets (at cost):

	REMAINING USEFUL LIFE	CARRYING AMOUNT \$'000
TRIM database	2	54
Greentree accounting system	2	259
Public website	3	289
Electronic publishing	4	782
Intranet	4	130
Greentree accounting system upgrade	2	108
Client relationship management system	5	60
Total internally developed computer software		1,682

The Commission has no contractual commitments for the acquisition of intangible assets.

### IMPAIRMENT

There were no indications of impairment on intangible assets at 30 June 2011.

## 18 Payables

	2011 \$'000	2010 \$'000
<b>Current</b>		
Creditors	379	225
Accrued expenses	539	512
GST payable	129	103
Employment on-costs	140	107
<b>Total current payables</b>	<b>1,187</b>	<b>947</b>
<b>Non-Current</b>		
Employment on-costs	30	31
<b>Total non-current payables</b>	<b>30</b>	<b>31</b>
<b>Total payables</b>	<b>1,217</b>	<b>978</b>

### 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 refer to Note 27.

## 19 Employee benefits

	2011 \$'000	2010 \$'000
<b>Current</b>		
Annual leave	293	268
Accrued salaries and wages	4	166
<b>Total current employee benefits</b>	<b>297</b>	<b>434</b>
<b>Non-current</b>		
Long service leave	176	182
<b>Total non-current employee benefits</b>	<b>176</b>	<b>182</b>
<b>Total employee benefits</b>	<b>473</b>	<b>616</b>

## 20 Provisions

	2011 \$'000	2010 \$'000
<b>Non-current</b>		
Provision for make good	20	20
<b>Total non-current provisions</b>	<b>20</b>	<b>20</b>
<i>Reconciliation of provision for make good</i>		
Carrying amount at the beginning of the period	20	20
Additional provisions recognised	–	–
Reductions arising from payments	–	–
Carrying amount at end of the period	20	20

## 21 Other non-current liabilities

	2011 \$'000	2010 \$'000
Deferred rent expense liability	112	111
<b>Total other non-current liabilities</b>	<b>112</b>	<b>111</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

## 22 Equity

	2011 \$'000	2010 \$'000
<b>Working Capital</b>		
New South Wales	750	750
Victoria	556	556
Queensland	432	432
South Australia	173	173
Tasmania	54	54
Australian Capital Territory	36	36
Western Australia	14	14
Northern Territory	2	2
<b>Total working capital</b>	<b>2,017</b>	<b>2,017</b>
<b>Retained earnings</b>	<b>8,557</b>	<b>8,740</b>
<b>Total Equity</b>	<b>10,574</b>	<b>10,757</b>

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

## 23 Unrecognised contractual commitments

### OPERATING LEASE COMMITMENTS

The Commission is party to an operating lease for office accommodation. The lessor is Perron Investments Pty Ltd and 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:

	2011 \$'000	2010 \$'000
Within 1 year	530	508
More than 1 year but not later than 5 years	1,224	1,755
<b>Total operating lease commitments</b>	<b>1,754</b>	<b>2,263</b>

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.

## 25 Remuneration of Commissioners and Committee Members

Members who held office during the reporting period were:

### Commissioners

John Pierce (appointed 2 June 2010)  
Neville Henderson (appointed 19 October 2009)  
Brian Spalding (appointed 19 April 2010)

### Audit Committee

John Pierce\* (appointed 2 June 2010)  
Brian Spalding\* (appointed 19 April 2010)  
Glenn Appleyard (appointed 9 November 2007)

### Reliability Panel

Neville Henderson (appointed 3 November 2009)

\* Members were not entitled to remuneration for their participation on the Committee or Panel.

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

	2011 NO.	2010 NO.
\$0 – \$9,999	1	1
\$20,000 – \$29,999	–	1
\$30,000 – \$39,999	–	1
\$40,000 – \$49,999	–	1
\$110,000 – \$119,999	–	1
\$150,000 – \$159,999	1	1
\$180,000 – \$189,999	1	–
\$490,000 – \$499,999	1	–
\$660,000 – \$669,999	–	1
<b>Total number of Commissioners and Committee members</b>	<b>4</b>	<b>7</b>

Remuneration of Commissioners reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by Commissioners and Committee members for the year was \$833,000 (2010: \$1,050,000). The total remuneration received by Commissioners in 2010 included payments of annual leave and long service leave on termination for John Tamblyn and Ian Woodward.

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

## 26 Statement of Cash flow reconciliation

### A. RECONCILIATION OF CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD:

Cash and cash equivalents reported in the:

	2011 \$'000	2010 \$'000
Statement of Cash Flows	5,723	6,250
Statement of Financial Position	5,723	6,250

### B. RECONCILIATION OF NET CASH USED IN OPERATING ACTIVITIES TO NET COST OF PROVIDING SERVICES:

Net cash (used in) provided by operating activities	(277)	(593)
Contributions from participating jurisdictions	(14,953)	(13,990)

#### Non-cash items:

Depreciation and amortisation expense	(658)	(460)
Net loss on disposal of non-current assets	(17)	(6)

#### Movement in assets and liabilities

Increase in receivables	866	1,992
Decrease/(increase) in payables	(239)	240
Decrease in employee benefits	143	225
Increase in other liabilities	(1)	(21)
<b>Net cost of providing services</b>	<b>(15,136)</b>	<b>(12,613)</b>

## 27 Financial instruments / Financial risk management

### CATEGORISATION OF FINANCIAL INSTRUMENTS

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

CATEGORY OF FINANCIAL ASSETS AND LIABILITIES	STATEMENT OF FINANCIAL POSITION	NOTE	CARRYING AMOUNT 2011 \$'000	FAIR VALUE 2011 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	Cash and cash equivalents	14	5,723	5,723
Loans and receivables	Receivables <sup>(1)</sup>	15	4,172	4,172
	<b>Total financial assets</b>		<b>9,895</b>	<b>9,895</b>
<b>Financial liabilities</b>				
Financial liabilities	Payables <sup>(1)</sup>	18	918	918
	<b>Total financial liabilities</b>		<b>918</b>	<b>918</b>
<b>Financial assets</b>				
Cash and cash equivalents	Cash and cash equivalents	14	6,250	6,250
Loans and receivables	Receivables <sup>(1)</sup>	15	3,284	3,284
	<b>Total financial assets</b>		<b>9,534</b>	<b>9,534</b>
<b>Financial liabilities</b>				
Financial liabilities	Payables <sup>(1)</sup>	18	737	737
	<b>Total financial liabilities</b>		<b>737</b>	<b>737</b>

<sup>(1)</sup> Receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables. In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levy receivables/payables, tax equivalents, commonwealth tax etc. they would be excluded from the disclosure. The standard defines 'contract' as enforceable by law. All amounts recorded are carried at cost except for employee on-costs which are determined via reference to the employee benefit liability to which they relate.

## 27 Financial instruments / financial risk management (continued)

### CATEGORISATION OF FINANCIAL INSTRUMENTS (CONTINUED)

#### 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 are calculated on past experience and current and expected changes in client credit rating. For the year ended 30 June 2011 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.

#### Ageing analysis of financial assets

No financial assets are past due.

#### Maturity analysis of financial assets and liabilities

All the Commission's financial assets and liabilities are due within the next 12 months.

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

	CARRYING AMOUNT \$'000	LESS THAN 1 YEAR \$'000	1 – 5 YEARS \$'000
<b>2011</b>			
<b>Financial assets</b>			
Cash and cash equivalents	5,723	5,723	–
Receivables	4,172	4,172	–
<b>Total financial assets</b>	<b>9,895</b>	<b>9,895</b>	<b>–</b>
<b>Financial liabilities</b>			
Payables	918	918	–
<b>Total financial liabilities</b>	<b>918</b>	<b>918</b>	<b>–</b>
<b>2010</b>			
<b>Financial assets</b>			
Cash and cash equivalents	6,250	6,250	–
Receivables	3,284	3,284	–
<b>Total financial assets</b>	<b>9,534</b>	<b>9,534</b>	<b>–</b>
<b>Financial liabilities</b>			
Payables	737	737	–
<b>Total financial liabilities</b>	<b>737</b>	<b>737</b>	<b>–</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

## 27 Financial instruments / financial risk management (continued)

### **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 not significant 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.

## 28 Events after reporting date

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



# ADMINISTERED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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# Statement of Administered Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011 \$'000	2010 \$'000
<b>Income</b>			
Grant revenues	A4	1,946	2,366
Interest revenues		116	95
<b>Total income</b>		<b>2,062</b>	<b>2,461</b>
<b>Expenses</b>			
Remuneration of the Panel	A9	57	67
Administration expenses		309	260
Evaluation expenses		86	109
Grant expenses		2,076	1,856
<b>Total expenses</b>		<b>2,528</b>	<b>2,292</b>
<b>Net Result</b>		<b>(466)</b>	<b>169</b>
<b>Total comprehensive result</b>		<b>(466)</b>	<b>169</b>

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

# Statement of Administered Financial Position

AS AT 30 JUNE 2011

	NOTE	2011 \$'000	2010 \$'000
<b>Current assets</b>			
Cash and cash equivalents	A5	2,349	2,804
Receivables	A6	340	250
<b>Total current assets</b>		2,689	3,054
<b>Total assets</b>		2,689	3,054
<b>Current liabilities</b>			
Payables	A7	422	321
<b>Total current liabilities</b>		422	321
<b>Total liabilities</b>		422	321
<b>Net assets</b>		2,267	2,733
<b>Equity</b>			
Retained earnings		2,267	2,733
<b>Total equity</b>		2,267	2,733
Unrecognised contractual commitments	A8		

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

# Statement of Administered Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	RETAINED EARNINGS \$'000	TOTAL \$'000
Balance at 30 June 2009		2,564	2,564
Net result for 2009–10		169	169
<b>Total Comprehensive Result for 2009–10</b>		169	169
<b>Balance at 30 June 2010</b>		2,733	2,733
Net result for 2010–11		(466)	(466)
<b>Total Comprehensive Result for 2010–11</b>		(466)	(466)
<b>Balance at 30 June 2011</b>		2,267	2,267

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

# Statement of Administered Cash Flows

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
<b>Cash outflows</b>			
Payments for suppliers and employees		(314)	(361)
Payment of grants and subsidies		(2,364)	(2,045)
GST paid to the ATO		(20)	(35)
<b>Cash used in operations</b>		<b>(2,698)</b>	<b>(2,441)</b>
<b>Cash inflows</b>			
Receipts from AEMO and the Commission		2,085	2,590
Interest received		115	90
GST recovered from the ATO		43	–
<b>Cash generated from operations</b>		<b>2,243</b>	<b>2,680</b>
<b>Net cash (used in)/provided by operating activities</b>	A10(b)	<b>(455)</b>	<b>239</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(455)</b>	<b>239</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>2,804</b>	<b>2,565</b>
<b>Cash and cash equivalents at the end of the period</b>	A10(a)	<b>2,349</b>	<b>2,804</b>

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

## 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 (South Australia)*. 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 (MCE) in the performance of its functions.

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

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 applicants for grants for consumer advocacy projects and research projects for the benefit of consumers of electricity or natural gas (or both);
- f) to publish on the Panel's website and in other appropriate ways the results of research supported by a grant under Part 4 of the Act and other research of interest to consumers of electricity or natural gas (or both);
- g) 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;
- h) to perform any other function that is reasonably incidental to any of the foregoing;

The Panel may, in performing its functions with respect to the allocation of grants:

- initiate its own research projects to be funded through the provisions of grants;
- invite or accept applications for grants from other persons or bodies.

The Panel approves grants to consumer advocacy organisations for advocacy and research projects that can be funded in tranches and over multiple financial years.

## A2 Summary of significant accounting policies

All the Commission's 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 AEMO 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.

### 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 Economic dependency

The continued existence of the Panel in its present form is dependent on the continuation of funding from the AEMC and AEMO. 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 revenue for the Panel for the 2011–12 year was approved by the MCE in December 2010 as follows:

- \$2,280,000 for the electricity component funded by AEMO.
- \$684,000 for the gas component funded by AEMO and AEMC.

### A4 Grant revenue

	2011 \$'000	2010 \$'000
Contributions received – AEMO	1,886	1,795
Contributions received – AEMC	60	571
<b>Total grant revenue</b>	<b>1,946</b>	<b>2,366</b>

The decrease in Total grant revenue is due to the Panel utilising accumulated cash reserves in lieu of contributions.

### A5 Cash and cash equivalents

	2011 \$'000	2010 \$'000
Cash at bank	271	200
Short term deposits	2,078	2,604
<b>Total cash and cash equivalents</b>	<b>2,349</b>	<b>2,804</b>

#### SHORT-TERM DEPOSITS

Short-term deposits are made for varying periods of between one day and three months and earn interest at the respective short-term deposit rates.

#### INTEREST RATE RISK

Cash at bank earns a floating interest rate, based on daily bank deposit rates. The carrying amount of cash and cash equivalents represents fair value.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

## A6 Receivables

	2011 \$'000	2010 \$'000
Contributions receivable	283	232
GST receivable	48	10
Other	9	8
<b>Total receivables</b>	<b>340</b>	<b>250</b>

### ALLOWANCE FOR DOUBTFUL DEBTS

As at 30 June 2011, there was no objective evidence that a receivable was impaired. Therefore an allowance for doubtful debts has not been recognised.

### INTEREST RATE AND CREDIT RISK

Receivables are raised for all 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 refer to Note A11.

## A7 Payables

	2011 \$'000	2010 \$'000
Gas and electricity grants payable	93	166
Trade creditors and accruals	329	155
<b>Total payables</b>	<b>422</b>	<b>321</b>

### INTEREST RATE AND CREDIT RISK

Accruals are raised for all amounts billed but unpaid. 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 refer to Note A11.

## A8 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:

	2011 \$'000	2010 \$'000
Payable within 1 year	2,978	2,906
	<b>2,978</b>	<b>2,906</b>

The above represents commitments for approved grant applications where the conditions for payment of the grant have not been met. The amount includes \$1,578,000 of grants where funding agreements have been approved, but which will be paid from cash and cash equivalents as at 30 June 2011 and funding to be received in the 2011–12 year as outlined in note A3.

## A9 Remuneration of the Panel

Members that were entitled to receive remuneration for membership of the Panel during the 2010–11 year were:

### CONSUMER ADVOCACY PANEL

Francis Peach (Chairman)

Karen Scott

Bruce Connery

Catherine Cooper

Edward Russell

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

	2011 NO.	2010 NO.
\$0 – \$9,999	1	1
\$10,000 – \$19,999	4	4
<b>Total number of Panel members</b>	<b>5</b>	<b>5</b>

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 \$57,000 (2010: \$67,000).

## A10 Statement of Administered Cash Flow Reconciliation

### A) RECONCILIATION OF CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD:

Cash and cash equivalents reported in the:

	2011 \$'000	2010 \$'000
Statement of Administered Cash Flows	2,349	2,804
Statement of Administered Financial Position	2,349	2,804

### B) RECONCILIATION OF NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES TO NET RESULT:

	2011 \$'000	2010 \$'000
Net cash provided by operating activities	(455)	239
<b>Movement in assets and liabilities</b>		
Increase in receivables	90	24
Decrease in payables	(101)	(94)
<b>Net result</b>	<b>(466)</b>	<b>169</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

## A11 Financial instruments / Financial risk management

### CATEGORISATION OF FINANCIAL INSTRUMENTS

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

CATEGORY OF FINANCIAL ASSETS AND LIABILITIES	STATEMENT OF FINANCIAL POSITION	NOTE	CARRYING AMOUNT 2011 \$'000	FAIR VALUE 2011 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	Cash and cash equivalents	A5	2,349	2,349
Loans and receivables	Receivables <sup>(1)</sup>	A6	292	292
	<b>Total financial assets</b>		<b>2,641</b>	<b>2,641</b>

### Financial liabilities

Financial liabilities	Payables <sup>(1)</sup>	A7	422	422
	<b>Total financial liabilities</b>		<b>422</b>	<b>422</b>

CATEGORY OF FINANCIAL ASSETS AND LIABILITIES	STATEMENT OF FINANCIAL POSITION	NOTE	CARRYING AMOUNT 2010 \$'000	FAIR VALUE 2010 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	Cash and cash equivalents	A5	2,804	2,804
Loans and receivables	Receivables <sup>(1)</sup>	A6	240	240
	<b>Total financial assets</b>		<b>3,044</b>	<b>3,044</b>

### Financial liabilities

Financial liabilities	Payables <sup>(1)</sup>	A7	321	321
	<b>Total financial liabilities</b>		<b>321</b>	<b>321</b>

<sup>(1)</sup> Receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables. In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levy receivables/payables, tax equivalents, commonwealth tax etc. they would be excluded from the disclosure. The standard defines contract as enforceable by law. All amounts recorded are carried at cost except for employee on-costs which are determined via reference to the employee benefit liability to which they relate.

## A11 Financial instruments / Financial risk management (continued)

### 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 are calculated on past experience and current and expected changes in client credit rating. For the year ended 30 June 2011 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.

### Ageing analysis of financial assets

No financial assets are past due.

### Maturity analysis of financial assets and liabilities

All the Panel's financial assets and liabilities are due within the next 12 months.

	CARRYING AMOUNT \$'000	LESS THAN 1 YEAR \$'000	1-5 YEARS \$'000
<b>2011</b>			
<b>Financial assets</b>			
Cash and cash equivalents	2,349	2,349	–
Receivables	292	292	–
<b>Total financial assets</b>	<b>2,641</b>	<b>2,641</b>	<b>–</b>

### Financial liabilities

Payables	422	422	–
<b>Total financial liabilities</b>	<b>422</b>	<b>422</b>	<b>–</b>

	CARRYING AMOUNT \$'000	LESS THAN 1 YEAR \$'000	1 – 5 YEARS \$'000
<b>2010</b>			
<b>Financial assets</b>			
Cash and cash equivalents	2,804	2,804	–
Receivables	240	240	–
<b>Total financial assets</b>	<b>3,044</b>	<b>3,044</b>	<b>–</b>

### Financial liabilities

Payables	321	321	–
<b>Total financial liabilities</b>	<b>321</b>	<b>321</b>	<b>–</b>

### 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.

## A12 Events after reporting period

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

## National Energy 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.

### STANDING COUNCIL ON ENERGY AND RESOURCES

On 10 June 2011 the national and subnational governments announced that the Ministerial Council on Energy (MCE) would be replaced by a new COAG Standing Council on Energy and Resources (SCER).

SCER will be formed following COAG's decision to amalgamate the Ministerial Council on Energy (MCE) with the Ministerial Council on Mineral and Petroleum Resources. Arrangements for establishing the new council were underway at the time of writing this report.

The new council will assume the functions of the MCE as the national policy and governance body for the Australian energy market (including electricity and gas).

The council includes ministers with responsibility for energy and resources within the Australian Government and all states and territories. The SCER will direct the AEMC to provide policy advice and conduct reviews into electricity or natural gas markets including the effectiveness of retail competition in these markets.

### AUSTRALIAN ENERGY MARKET COMMISSION (AEMC)

The AEMC was responsible to the MCE for the performance of its functions during the year under review. 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 other Australian jurisdictions that governs the extent to which the national gas legislation applies in the relevant jurisdiction.

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.

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.

As an entity established by the South Australian parliament and located in New South Wales the AEMC is required to operate under legislation from both states. As an employer we operate under NSW employment law but we are also accountable under the Freedom of Information Act 1991 (SA), the Public Finance and Audit ACT 1987 (SA) and the Records Management Act 1997 (SA).

The AEMC was established in July 2005 and the nation's energy ministers are 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.
- Since 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.
- On 1 September 2009, sections 1 and 2 of the *National Gas Access (WA) Act 2009* commenced operation.
- On 1 January 2010, Western Australia became a participating jurisdiction in the national gas regulatory scheme to the extent set out in the National Gas Access (WA) Act 2009. The National Gas Access (WA) Act 2009 adopts a modified version of the National Gas Law (National Gas Access (Western Australia) Law). Under the National Gas Access (Western Australia) Law, the National Gas Rules (NGR) applying to Western Australia is version 1 of the NGR, as amended by the AEMC in accordance with its rule making power under section 74 of the National Gas Access (Western Australia) Law.
- In October 2010 the MCE endorsed the new national regulatory regime governing sale and supply of energy to retail customers – the National Energy Customer Framework (NECF). The NECF package includes an extensive list of obligations including quality of information on bills, marketing regulation, and mandatory hardship programs for customers. The distribution aspects of the package pick up non-economic regulatory actions around the monitoring and enforcement of compliance, service, reliability and connection standards.
- On 9 March 2011 bills introduced in November 2010 by the South Australian Minister for Energy on the National Energy Customer Framework (NECF) received Royal Assent – setting up the model National Energy Retail Law (NERL) and including provisions for making the initial National Energy Retail Rules (NERR).

During the year under review the AEMC was preparing for its new role in the National Energy Customer Framework (NECF) which is foreshadowed by the national energy ministers to commence in July 2012.

The National Energy Retail Rules (NERR) will provide for the detailed content of consumer protection measures and model contracts governing relationships between customers, retailers and distributors. New parts of the NER and NGR will also operate in conjunction with the National Energy Retail Law and the National Energy Retail Rules.

#### **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.

### **MCE Statements of Policy Principles**

In 2010-2011 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
- 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 (LRPP). Its purpose is to ensure timely and efficient inter-regional transmission investment for the long term interests of consumers of electricity.

The AEMC conducted an assessment and determined that there was no requirement to exercise its last resort planning power in 2010-2011.

In 2011-2012, the AEMC will again conduct an assessment of whether there is a need for it to exercise the LRPP. This assessment will include consideration of the 2010 National Transmission Network Development Plan and the relevant Transmission Network Service Provider Annual Planning Reports. The AEMC will report publicly on the matters it has considered in deciding whether or not to exercise the last resort planning power.

### **External consultants**

The AEMC supplements its own resources with consultants. In 2010-2011 the total amount expended was \$2,592. Services provided covered a number of areas including:

- Regulatory and economic advice on a range of issues including retail competition, market power, financial markets, demographics
- Economic and financial modelling of a range of scenarios relating to: the impact of various climate change policies, wholesale electricity prices and market resilience
- Technical and economic advice on a range of metering issues
- Analysis of demographic issues on small scale renewable technology take up
- Advice on factors influencing investment decisions
- Advice on new demand side participation technologies
- Corporate matters such as employment, remuneration, IT disaster recovery

# Statutory Reports

NUMBER AND DOLLAR AMOUNT OF CONSULTANCIES THAT FELL WITHIN THE FOLLOWING BANDS:	NO	2011 \$'000
Below \$10,000	2	6
Between \$10,000 and \$50,000	5	115
Above \$50,000	13	2,471
<b>Total</b>	<b>20</b>	<b>2,592</b>

## 2010-11 EXTERNAL CONSULTANTS

COMPANY	PROJECT DESCRIPTION
ACIL Tasman Pty Ltd	Modelling of contribution of small scale renewables
Andrew Matters	Factors influencing investment decisions in markets generally
CoRE Research Pty Ltd	Potential Generator market power in the NEM
Economic Insights Pty Ltd	Total Factor Productivity
Energy Market Consulting Associates Pty Ltd	Advanced Metering Installation Contestability Advice
Frontier Economics Pty Ltd	Retail Electricity Price Movements
Hill Michael Associates Consulting	Transmission Frameworks Review
KEMA Consulting	Scoping – Framework Impacts of New Distribution-level Technology
Mercer	Employment market review and advice
NERA Economic Consulting	Modelling of market scenarios and advice re effectiveness of competition in ACT retail electricity market
Promontory Australasia (Sydney) Pty Ltd	Financial markets advice
Regulatory Policy Institute	Transmission Frameworks Review
Richard Marcus McInern	Employment Advice
ROAM Consulting Pty Ltd	Modelling of ancillary services
Roy Morgan Research	Review of the Effectiveness of Competition in the Electricity Retail Market – ACT
SAHA International Ltd	Scale Efficient Network Extensions
Seed Advisory	Analysis of demographics of small scale renewables
Sinclair Knight Merz	Investigation Into the Exercise of the Last Resort Planning Power
SMS Management & Technology	IT disaster recovery and desktop hardware refresh
The Allen Consulting Group	Review of the Effectiveness of Competition in the Electricity Retail Market – ACT

## AEMO's Use of Powers of Direction

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

AEMO issued **no directions** from 1 July 2010 to 30 June 2011 in relation to power system security under clause 4.8.9(a) of the National Electricity Rules.

**One instruction** was issued under clause 4.8.9(a) of the National Electricity Rules during the reporting period.

### One clause 4.8.9(a) instruction was issued in 2010-2011

13 Oct 10	SA/VIC	1	Instruction to Australian Pipeline Trust, withdrawing Permission to Proceed (PTP) on Murraylink planned maintenance outage.
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## Use by Registered Participants of Inspection and Testing Rights

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

From 1 July 2010 to 30 June 2011, 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.

# Compliance Index

The AEMC Annual Report 2010-2011 is prepared in accordance with the *Australian Energy Market Commission Establishment Act 2004* (SA) (the Act) and satisfies the requirements of the *Australian Energy Market Commission Establishment Regulations 2005* (SA). This index indicates where each of the items which the AEMC must report on is located within the report.

- 1) A report of the AEMC under section 27 of the Act must include a report on the following in respect of the financial year concerned:
  - a) the National Energy Law provisions and other legislative provisions that confer functions on the AEMC  
[Statutory reports](#)
  - b) the AEMC's relationship to other bodies involved in the administration of National Energy Laws  
[Statutory reports](#)
  - c) the membership and organisation of the AEMC  
[Governance](#)
  - d) the AEMC's strategic plans and the relationship of the plans to objectives set out in the National Energy Laws  
[Governance](#)
  - e) the AEMC's activities and their efficiency and effectiveness  
Issues and challenges  
[Year in review](#)
  - f) the AEMC's financial affairs  
[Financial Statements](#)
  - g) disclosures made by Commissioners under section 22 of the Act  
[Governance](#)
  - 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](#)
  - 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](#)
  - j) the occupational health, safety and rehabilitation programs of the AEMC and their effectiveness  
[Our people](#)

- k) any instances of fraud in the operations of the AEMC and the strategies implemented to prevent and control fraud  
[Governance](#)
- 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.  
[Rules](#)
  - 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  
[Year in review](#)
  - 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  
[Rules](#)
    - B) the stages at which proposed Rules are in the Rule making procedure, and  
[Rules](#)
    - C) decisions of the AEMC not to proceed with requests for Rules, and  
[Rules](#)
    - D) Rules made, and  
[Rules](#)
    - E) Rules that have come into operation  
[Rules](#)
  - IV. MCE directed reviews and AEMC initiated reviews under the National Electricity Law  
[Formal market reviews](#)
  - V. Market development functions  
[Issues and challenges](#)  
[Year in review](#)
  - VI. Recommendations made by the AEMC for the MCE to request the making of Rules  
[Rules](#)

- 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](#)
- 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](#)
- 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](#)
- 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  
[Formal market reviews](#)
- 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](#)
  - 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](#)

# Appendices

## APPENDIX 1

Consumer Advocacy Panel

Annual Report 2010-2011.

The following report is the report of the Consumer 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.

# APPENDICES

## APPENDIX 1: CONSUMER ADVOCACY PANEL

ANNUAL REPORT 2010-11

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- B. Panel overview 94
- C. Panel revenue in 2010/11 96
- D. Grants made in 2010/11 96
- E. Activities undertaken in consumer advocacy and  
research projects approved for funding in 2010/11 101

## Annual Report for the year ended 30 June 2010

### 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 was established on 1 July 2008, following the decision by the Ministerial Council on Energy to revise the legislative framework for the creation of the predecessor organisation, the National Electricity Consumer Advocacy Panel.

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<sup>1</sup>.

This 2010/11 Report from the Panel satisfies requirements in Part 4 (Section 47) of the Act.

The Panel's 2010/11 financial statements are included in the AEMC's financial statements as administered financial statements, tabled in the South Australian Parliament and subsequently published.

### B. Panel overview Members

The Panel consists of a Chair (Frank Peach) and four other members (Catherine Cooper,

Bill Russell, Bruce Connery and Karen 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 2010/11, the Panel held 12 formal meetings (one per month) and, where necessary, also dealt with grant applications or other matters by email resolution.

### Administration

The Panel was supported by a full-time Executive Director (Kerry Connors) and a part-time (0.4EFT) Communications Officer (Marea Reed, who began work in September 2010).

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 2010/11, \$356,062 was expended on administration, slightly under budget. The Panel's administrative costs include all operational expenses, including Panel and staff remuneration, rent, accounting and audit fees, Panel meeting costs, website and internet expenses, and printing and stationery.

Back office functions for the Panel—financial, contracting and human resources—are provided by the AEMC in accordance with the Act on a cost recovery basis.

The following outlines the Panel's major activities over the reporting period.

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

Ministers approved amendments to the Guidelines on 4 July 2011, which outline the new procedure that requires all grant recipients to inform the Panel whether any grant output will be a report. Where a report will be published, a jurisdiction may indicate its intention to review the report for technical and factual error, and a grant recipient will therefore be asked to provide the draft final copy of the report to the Panel to convey to the Ministerial Council on Energy 10 business days before publication.

### Strategic plan 2010-13: review of strategic priorities

In March 2011, the Panel undertook its annual review of the *Strategic Plan 2010-*

2013, which included an assessment of its progress against current strategic priorities, summarised briefly below:

1. Addressing gaps in advocacy, focusing particularly on encouraging greater participation by under-represented consumers, including rural and regional consumers and small businesses, and greater advocacy coverage on price and reliability issues
  - Grants were approved that investigated the energy issues facing rural and regional consumers in Tasmania, South Australia, NSW, Queensland and NSW, as well as communities in Victoria and South Australia.
  - Outreach was targeted at small business organisations, including the national peak bodies, resulting in grant applications from the Victorian Employers Chamber of Commerce and Industry, and a consultant working with NSW Farmers Federation
  - Grants focusing on prices were approved to consumer advocacy organisations in NSW, Queensland, Victoria, and Western Australia
  - To improve its capacity to reach rural and regional consumer organisations, the Panel agreed to regularly hold a Panel meeting in a regional location. In September 2010, the Panel accordingly met in Castlemaine, Victoria, where discussions were held with

<sup>1</sup> The Australian Energy Market Commission Establishment Regulations 2005 Schedule 1.3A define small to medium consumer under the Act as a consumer using 4 gigawatt hours of electricity or 100 terajoules of gas per annum

## B. Panel overview (continued)

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a range of local consumer groups with an interest in NEM advocacy.

2. Improving the effectiveness of advocacy: initiatives that included improved resources to assist grant applicants and recipients

- Commissioned independent advice on consumer energy research priorities to assist advocates frame their research grant applications
- Developed resources to assist consumer advocates, including a re-designed application form, and resources to assist with their compliance with their obligations under the funding agreement.

3. Improving the Panel's engagement with stakeholders: including through improving its communication tools to disseminate widely the research and advocacy funded through grants.

- In December 2010, the Panel launched the first edition of its quarterly newsletter CAPtions, which provides information about the Panel, recent grant decisions, a calendar of forthcoming national regulatory decisions to alert advocates to opportunities for advocacy, and an outline of the impact of a selection of recent grants, to illustrate advocacy in action. In 2010/11, three editions of CAPtions were published.

- Face to face monthly Panel meetings were used to meet stakeholders, to discuss consumer energy issues with consumer advocates and jurisdictional decision-makers, and to hear directly about from grant recipients on their recent projects.

- The Panel decided to redesign its website, a project due for completion in the second quarter of 2011/12, to improve its utility to consumer groups and decision-makers.

4. Enhancing the Panel's management of its grants: strengthening its grants management systems and processes, including finalising the structure and processes attached to the new advocacy funding model.

- The *Grant Allocation and Application Guidelines and Application Form* were redesigned to make it easier for grant applicants to understand the information they must provide to the Panel, and their obligations
- Amendments to the MCE peer review process were processed quickly and with minimal disruption to grant recipients

The updated *Strategic Plan 2010-2013* was published on the Panel's website, reflecting the following priorities going forward:

1. Addressing gaps in advocacy

The Panel will actively encourage the participation in policy and regulatory

decisions advocacy organisations representing classes of energy consumers who have not been as well heard.

Rural, regional, residential and small business will continue to be the main priority groups.

2. Improving the effectiveness of advocacy

The Panel will initiate and support activities to improve the effectiveness and sustainability of advocacy, including through its annual program of independent evaluation of grants, and developing a 'lessons learned' database on its website to share successful strategies for advocacy.

3. Improving the Panel's communications and engagement with stakeholders

The Panel will recast its engagement arrangements with a variety of stakeholders.

4. Enhancing the Panel's management of its grants

The Panel will strengthen its grants management systems and processes, including performance monitoring and evaluation of advocacy projects.

### Global Advocacy Funding Grants

The Panel continued to refine its Global Advocacy Funding Grants model, to

encourage consumer advocacy organisations eligible for funding to maximise the opportunities presented through this model of funding. Accordingly meetings were held with GAFG grant recipients to assist their consideration of their 2011/12 applications.

The Panel also reviewed its principles and criteria for determining the amount of a Global Advocacy Funding Grant, and commissioned independent advice from ACIL Tasman. Those deliberations will inform its consideration of 2012/13 grants.

### Funding research for the benefit of electricity and gas consumers

The Panel trialled a new approach in 2010/11 to its consideration of research grant applications.

The Panel funds research through two grant programs:

- Research initiated by the Panel: the Panel provides funding to consumer organisations, individuals and academic institutions to undertake research on priority electricity and gas issues identified by the Panel. The Panel undertakes research in order to
  - raise awareness of emerging consumer energy issues
  - provide information that can be used to facilitate consumer advocacy
  - stimulate discussion or debate on consumer energy issues

## B. Panel overview (continued)

- Research initiated by other organisations: the Panel provides funding to consumer organisations, individuals and academic institutions to undertake research on electricity and gas issues.

To inform its consideration of applications and assist potential applicants, the Panel commissioned Allen Consulting Group to provide advice on the priority consumer energy issues identified by key decision-makers and published the subsequent report on the website.

On 28 January 2011 the Panel invited any organisations and individuals with the requisite expertise to submit grant applications to undertake

- research on one of the priorities identified by the Panel in its 2010/11 research agenda
- research on another issue of benefit to electricity and/or gas consumers in the National Energy Market.

Reflecting the growing public focus on energy issues, the Panel received an unprecedented 21 research grant applications from consumer advocacy organisations, academic institutions, and consultants. The Panel approved 10 research projects, covering a range of consumer interests.

### 2011/12 budget

On 3 September 2010, the Panel published a draft 2011/12 budget on its website, seeking

comments from stakeholders. The final 2010/11 budget was submitted for the MCE's approval on 15 October 2010.

The Hon Martin Ferguson, in his capacity as MCE Chair, formally advised the Panel in January 2011 that the MCE had approved a total 2011/12 budget of \$2.96 million, representing an across the board CPI increase of 4% to the previous year.

### Evaluation of grants

The Panel published the independent evaluation of the 2009/10 global grants undertaken by the Allen Consulting Group.

The evaluation of 2009/10 grants highlighted the features of successful advocacy projects, such as effective targeting of advocacy efforts, effective project management and performance reporting, flexible and adaptive planning, and leveraging appropriate external expertise.

The Panel has commissioned RobertsBrown to undertake the formal independent evaluation of a selection of 2010/11 grants, which will also be published on the Panel's website.

### C. Panel revenue in 2010/11

In 2010/11 the Panel's total revenue was \$2.06 million, comprising:

- \$1.95 million from fees charged to certain market participants via the Australian Energy Market Operator (AEMO) for expending on electricity and advocacy and research

projects and the portion of the Panel's administrative costs that relate to electricity and gas advocacy, and from relevant jurisdictions via the AEMC, for expending on gas advocacy and research projects and the portion of the Panel's administrative costs that relate to that component of gas

- \$115,861 in interest.

### D. Grants made in 2010/11

The Panel provides grants to support the following types of advocacy and research:

- 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

The Panel believes the funding it allocated in 2010/11 fully complied with the principles set out in Schedule 1 of the *Australian Energy Market Commission Regulations 2005*.

### 2010/11 Grants

The Panel is required to report on all grants made during the financial year.

During the reporting period, the Panel approved 38 grants out of 52 grant applications, although 2 grant applications were subsequently withdrawn.

The overall number of applications was down slightly from 2009/10 although still significantly greater than in earlier years. The overall reduction was due largely to the aggregation of projects into one grant by Global Advocacy Funding Grant applicants, which reduced the number of applications made (although not the number of projects undertaken) by those organisations, as well as a reduced amount of applications to attend meetings convened by a NEM jurisdiction or regulator.

The total value of 2010/11 grants approved was \$2,220,653 (exc GST), an increase from the previous year, and continuing a steady upwards trend.

Worth noting is that of the 31 organisations that received 2010/11 grants, 12 organisations had never previously applied for Panel funding, demonstrating the increasing interest and active engagement by consumer advocacy organisations in NEM policy and regulatory decisions.

The following reports on all grants approved by the Panel in 2010/11, whether those projects were for advocacy or research, and whether they were for the benefit of electricity or gas consumers or benefited both electricity and gas consumers.

## D. Grants made in 2009/10 (continued)

**TABLE 1: ALL 2010/11 GRANTS (EX GST) BY GRANT PROGRAM**

GRANT TYPE	GRANTS MADE	PROJECTS FUNDED	FUNDING ALLOCATED (\$ EXC GST)
Advocacy <sup>2</sup>			
Electricity	16	51	1,440,236
Gas	6	31	506,356
Joint	4	4	37,461
Panel-initiated research			
Electricity	2	2	59,500
Stakeholder-initiated research			
Electricity	8	8	161,500
Gas	2	2	15,600
<b>TOTAL</b>	<b>38</b>	<b>98</b>	<b>2,220,653</b>

The Panel provides funding to advocacy organisations representing business (small and large businesses) and domestic consumers. The following provides information on the year to year change in funding provided to those classes of consumers.

**TABLE 2: 2010/11 VS 2009/10 GRANTS BY CUSTOMER TYPE**

	BUSINESS		DOMESTIC		TOTAL	
	10/11	09/10	10/11	09/10	10/11	09/10
\$0 – \$50,000	8	11	17	26	25	37
\$50,001 – \$100,000	1	2	2	10	3	12
\$100,000 +	2	2	8	7	10	9

<sup>2</sup>The Panel provides grants to projects that benefit electricity and gas consumers. Where the primary beneficiary is either electricity or gas consumers, the grant has been classified accordingly.

## D. Grants made in 2009/10 (continued)

### Grants approved in 2010/11 for activities in 2011/12

As it has done in previous years, in order to provide certainty for consumer advocacy organisations to recruit and employ staff, the Panel approved in April and May 2011 a number of Global Advocacy Funding Grant and capacity-building grants for projects that will begin on 1 July 2011. The features of these grants are:

- Global Advocacy Funding Grants where one grant supports a range of priority projects nominated by the recipient
- Table 3 below lists the number of projects as well as the grants made, to underline the breadth of activity supported by the Panel
- capacity-building grants, where the grant is used to build capacity within an organisation to facilitate its advocacy activities (typically through the employment of staff to participate in a range of policy and regulatory decisions). Table 4 lists those grants.

In 2010/11 the Panel approved global funding grants to the following organisations.

**TABLE 3: GLOBAL ADVOCACY FUNDING GRANTS APPROVED IN 2010/11 FOR 2011/12**

NO	APPLICANT	PROJECT	PROJECTS FUNDED	AMOUNT FUNDED (\$ EXC GST)
<b>473</b>	Total Environment Centre	NEM advocacy 2011/12	3	\$140,000
<b>476</b>	Alternative Technology Association	NEM Advocacy 2011/12	3	\$125,000
<b>477</b>	Australian Council of Social Service	NEM Advocacy 2011/12	4	\$140,000
<b>481</b>	Consumer Action Law Centre	NEM Advocacy 2011/12	3	\$215,000
<b>485</b>	Major Energy Users Inc	MEU global funding 2010/12	9	\$215,000
<b>486</b>	Energy Users Association of Australia	Priority projects for 2010/12	5	\$215,000
<b>Total</b>			<b>27</b>	<b>\$1,050,000</b>

## D. Grants made in 2009/10 (continued)

In 2009/10, the Panel approved capacity-building grants to the following organisations to facilitate advocacy in 2010/11.

**TABLE 4: CAPACITY-BUILDING GRANTS APPROVED IN 2009/10 FOR 2010/11**

NO	APPLICANT	PROJECT	PROJECTS FUNDED	AMOUNT FUNDED (\$ EXC GST)
<b>469</b>	Tasmanian Council of Social Service	Energy Research and advocacy 2011/12	7	\$41,600
<b>400</b>	South Australian Council of Social Service	SACOSS capacity-building project 2011/12	7	\$110,600
<b>471</b>	100% Renewable Community Campaign	Building regional networks: enhancing capacity of local community groups to advocate on energy matters 2011/12	4	\$95,000
<b>474</b>	Uniting Care Australia	National Energy Advocacy 2011/12	6	\$80,000
<b>475</b>	Ethnic Communities Council of NSW	National Energy Reform Advocacy and Capacity-Building for Ethnic Communities and Small Businesses	5	\$66,500
<b>479</b>	Australian Council of Social Service	National Consumer Roundtable on Energy – operations support worker and meeting expenses	2	\$100,000
<b>480</b>	QUT Credit and Consumer Law program	NEM advocacy 2010/11	5	\$142,012
<b>Total</b>			<b>36</b>	<b>\$635,712</b>

### Grants allocated to the 2010/11 budget: budgeted vs actual expenditure

The following provides information about grants expenditure within the 2010/11 budget.

As explained above, the Panel approves funding for capacity-building and global advocacy projects for the next financial year.

The following table outlines 2010/11 actual compared to forecast expenditure in each of the main grants programs, including for the evaluation of grants, identifying advocacy and research projects undertaken for the benefit of electricity and gas consumers.

Unspent funds will be used to reduce the amount of revenue sought by the Panel in its 2012/13 budget.

## D. Grants made in 2009/10 (continued)

TABLE 5: 2010/11 GRANTS: BUDGETED VERSUS ACTUAL GRANT APPROVALS

		\$ (EXC GST)		
GRANT CATEGORY	PROJECT TYPE	2010/11	2010/11 EXPENDITURE	REMAINING
Advocacy	Electricity Projects	1,657,208	1,440,236	216,972
	Gas Projects	359,820	506,356	(146,536)
	Joint Projects	113,928	37,461	76,467
Research	Panel initiated			
	• Electricity research	56,732	59,500	(2,768)
	• Gas research	58,957	0	58,957
	• Joint Research	29,479	0	29,479
	Stakeholder initiated			0
	• Electricity research	29,479	161,500	(132,021)
	• Gas research	29,479	15,600	13,879
	• Joint Research	28,366	0	28,366
	Grants sub-total	\$2,363,448	\$2,220,653	\$142,795
Evaluation				–
	Evaluation of electricity projects	51,190	52,533	(1,343)
	Evaluation of gas projects	13,024	12,820	204
	Evaluation of joint projects	21,012	20,447	565
Grants total		\$2,456,028	\$2,306,453	\$149,575

## E. Activities undertaken in 2010/11 consumer advocacy and research projects

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS (WHERE GRANT APPROVED)	APPROVED (A) / REJECTED (R)	AMOUNT FUNDED
315	Electricity advocacy	Australian Council of Social Service	Revised grant to support travel costs for consumer representatives on the National Smart Meter Working Groups	Facilitate attendance by consumer representatives to government-convened meetings.	A	\$3390.00
399	Electricity and gas capacity-building/ advocacy	Tasmanian Council of Social Service	Energy Research and advocacy 2010/11	Building capacity within TasCOSS to draft submissions and undertake lobbying on : NECF to MCE and to Tasmanian government, NECF implementation to AER, smart meters policy to MCE and Tasmanian government, CPRS to Commonwealth, Tasmanian electricity retail pricing to OTTER, introduction of FRC to Tasmanian government, Energy White Paper to COAG and DRET, changes to gas regulation to Tasmanian government and OTTER	A	\$39,340.00
400	Electricity and gas capacity-building/ advocacy	South Australian Council of Social Service	NEM reform advocacy capacity building project – South Australia – 2010/11	Building capacity within SACOSS to draft submissions and undertake lobbying on MCE on NECF, AER on SA gas distribution price review; DRET/ DCCEE on energy efficiency policy and program development; ESCOSA on SA retail electricity and gas price path; DRET on Energy White Paper. Briefing members on key NEM issues and creation of a SACOSS essential services online forum	A	\$109,080.00
402	Electricity and gas capacity-building/ advocacy	Uniting Care Australia	Informing Uniting Care Energy Advocacy 2010/11	Building capacity within UnitingCare to establish small business, aged and rural services reference groups, inform networks through newsletter and website, convene community forums to input to advocacy, and advocate to following processes: AER development of retail regulatory guidelines, analysis of regulatory regime on distribution price determination, discussion paper on energy affordability, issues papers on priority reference groups	A	\$100,000.00
403	Global Advocacy Funding Grant – electricity and gas advocacy	Total Environment Centre	NEM advocacy 2010/11	Strategic priorities were: enhanced capacity for demand management in the NEM; enhanced capacity for energy efficiency to participate in the NEM; improved alignment of NEM with climate change policy; enhanced capacity for distributed generation; transition costs to GAFG model	A	\$127,000.00
404	Electricity and gas capacity-building/ advocacy	Kildonan UnitingCare	Indigenous community energy education and advocacy	Building capacity to employ an Indigenous Community Energy Worker to collect data and report on fuel poverty in local indigenous community and advocacy on potential solutions, as well as provide energy education and consumer advocacy for that class of consumers	A	\$102,102.00

## E. Activities undertaken in 2010/11 consumer advocacy and research projects (continued)

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS (WHERE GRANT APPROVED)	APPROVED (A) / REJECTED (R)	AMOUNT FUNDED
405	Global Advocacy Funding Grant – electricity and gas advocacy	Australian Council of Social Service	ACOSS NEM advocate 2010/11	Strategic priorities were: low-income consumers and the market – general advocacy; retail policy and the national regulatory framework; CSOs, concessions and rebates; pricing and affordability; smart meters and the NSMP; climate change, carbon price, energy efficiency and equity; and national energy policy.	A	\$143,000.00
407	Global Advocacy Funding Grant – electricity advocacy	Alternative Technology Association	NEM Advocacy 2010/11	Strategic priorities were: micro-generation consumers in the NEM; residential energy efficiency consumers in the NEM; and demand management and other sustainable energy options for NEM residential consumers	A	\$103,338.00
408	Global Advocacy Funding Grant – electricity and gas advocacy	Consumer Action Law Centre	NEM Network Coordinator and Consumer advocate 2010/11	Strategic priorities were: national energy retail regulation; energy distribution in the consumer interest; external capacity-building; and meetings of the National Consumer Roundtable on Energy	A	\$217,226.00
409	Electricity and gas capacity-building/ advocacy	Central Victorian Greenhouse Alliance Inc.	Growing regional capacity	Development of a guide for members on the design and regulations of the NEM in relation to the connection of distributed generation; Education of CVGA membership on the operation of the NEM; submissions and lobbying in relation to decisions relating to the connection of DG and network augmentation and planning, including in Victorian rollout of smart meters; submission to AER revised draft determination on Victorian distribution prices	WITHDRAWN	\$0.00
410	Electricity and gas capacity-building/ advocacy	QUT Credit and Consumer Law program	NEM advocacy 2010/11	Building capacity within the organisation to advocate on issues on the NEM and the retailing of electricity on behalf of Queensland consumers	A	\$70,390.00
411	Electricity advocacy	Ethnic Communities Council of New South Wales	NEM advocacy 2010/11	Building capacity within the ECC NSW to represent CALD consumers in Commonwealth policy decisions, including on energy efficiency, finalisation of the NECF, smart meters, and to NSW government on NECF transition	A	\$22,000.00

## E. Activities undertaken in 2010/11 consumer advocacy and research projects (continued)

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS (WHERE GRANT APPROVED)	APPROVED (A) / REJECTED (R)	AMOUNT FUNDED
431	Global Advocacy Funding Grant – electricity and gas advocacy	Major Energy Users Inc	MEU global funding 2010/11	Strategic priorities were: AER Vic distribution price review; rule change on network investment; AEMO review of value of customer reliability; generator market power AEMC rule change; SA gas distribution price review; AEMC electricity transmission frameworks review; AER review of Darwin Amadeus gas pipeline access arrangement; Reliability Panel review of Reliability and Emergency Reserve Trader; AEMC reviews on scale efficient network extensions, strategic directions, and inter-regional transmission charging	A	\$206,000.00
432	Global Advocacy Funding Grant – electricity and gas advocacy	Energy Users Association of Australia	Priority projects for 2010/11	Strategic priorities were: engagement in AEMC transmission review; impact of gas pipeline regulation on energy users; comparative performance of distribution businesses; investigation into NEM market power; review of network prices, regulation and impact on energy users; and assessment of impacts of renewable and clean energy policies	A	\$206,000.00
435	Electricity and gas advocacy	Kildonan UnitingCare	Emerging Communities – education and advocacy		R	
436	Electricity advocacy	Alternative Technology Association	Consumer representation on the NSMP NSSC	Facilitation of attendance by consumer representatives to government-convened meetings	A	\$23,315.00
437	Electricity advocacy	Queensland Council of Social Service	Suitable electricity tariffs for low income consumers and the potential for social tariffs	Report	WITHDRAWN	\$0.00
438	Electricity advocacy	Queensland Council of Social Service	Submission to QCA BRCI draft decision	Submission to Queensland Competition Authority	A	\$10,000.00
439	Electricity and gas advocacy	Consumer Utilities Advocacy Centre	Overcoming the information asymmetry: Approaches to improving customer participation in the energy retail market	Research report and advocacy on findings	A	\$44,700.00
440	Electricity and gas advocacy	100% Renewable Community Campaign	Regional and rural Australia Energy White Paper project	Workshops to facilitate participation in Energy White Paper process by 15-20 community group members	A	\$62,000.00
441	Electricity and gas advocacy	UnitingCare Wesley Adelaide	National Consumer Roundtable on Energy planning event 2011		R	

## E. Activities undertaken in 2010/11 consumer advocacy and research projects (continued)

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS (WHERE GRANT APPROVED)	APPROVED (A) / REJECTED (R)	AMOUNT FUNDED
442	Electricity advocacy	Meta Economics Consulting Group	Agricultural electricity consumer issues in the National Electricity Market	Report based on survey of NSW farmers energy issues	A	\$53,800.00
443	Gas Advocacy	West Australian Council of Social Service	Consumer-based analysis of the debt risk premium	Submission to WA Economic Regulatory Authority	A	\$20,500.00
444	Electricity advocacy	Consumer Action Law Centre and Consumer Utilities Advocacy Centre	Support for intervention in ACT proceedings on AER Victorian distribution price determination	Report on CALC and CUAC participation in application for intervention, and recommendations for change	A	\$103,800.00
445	Stakeholder-initiated research – electricity and gas	Ethnic Communities Council of New South Wales	Ethno-specific small business and CALD residential energy consumer consultation project	Report on CALD energy issues, and advocacy on solutions	A	\$32,600.00
446	Electricity advocacy	St Vincent de Paul Society Victoria Inc. and St Vincent de Paul Society NSW	NSW Tariff-tracking tool	Development of a series of workbooks to track NSW tariffs, workshop to explain tool to NSW consumer representatives; and a report analysing NSW electricity and gas retail offers	A	\$38,587.00
447	Stakeholder-initiated research – electricity	University of Tasmania	Evaluating Demand-Side Response from a Consumer Viewpoint		R	
448	Stakeholder-initiated research – electricity	MS Australia – TAS	Keeping Tasmania Cool Campaign	Campaign to secure Tas government agreement to provide energy rebate to Tasmanians with neuromuscular conditions	A	\$19,560.00
449	Stakeholder-initiated research – electricity	Engineroom Infrastructure Consulting	Scoping study into electricity service quality	Report on electricity distribution service quality issues	A	\$21,000.00
450	Panel-initiated research – electricity	Engineroom Infrastructure Consulting	Mapping retail electricity standing offer prices Australia-wide	Information and graphs mapping Australian standing electricity offers from 2000, with data on causes of price changes	A	\$31,500.00
451	Stakeholder-initiated research – electricity	COTA Seniors Voice	Investigating electricity non-switchers in South Australia		R	

## E. Activities undertaken in 2010/11 consumer advocacy and research projects (continued)

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS (WHERE GRANT APPROVED)	APPROVED (A) / REJECTED (R)	AMOUNT FUNDED
452	Stakeholder-initiated research – electricity	Moreland Energy Foundation	Residential energy information portal evaluation project	Report on consumer reaction to real time information on energy consumption	A	\$38,300.00
453	Panel-initiated research – electricity	Total Environment Centre	Consumer reactions to increased cost of electricity	Report on residential consumers' response to price increases	A	\$28,000.00
454	Stakeholder-initiated research – electricity	Total Environment Centre	Real costs and benefits of demand management		R	
455	Stakeholder-initiated research – electricity	Mallee Family Care	Mallee Family Care – gas and electricity research project		R	
456	Stakeholder-initiated research – electricity	City of Victor Harbor	Demand-side participation in the Fleurieu region	Report assessing existing use of and potential for demand side responses in the region	A	\$20,000.00
457	Stakeholder-initiated research – electricity	Alternative Technology Association	"The Good Energy Guide" a consumer guide to making financial choices when purchasing energy efficiency and renewable energy technologies		R	
458	Stakeholder-initiated research – electricity and gas	Centre for Energy and Environmental Markets, Uni of NSW	Energy efficiency information disclosure policies for residential and commercial leased properties	Report addressing split incentive problem in energy efficiency upgrades to rental properties	A	\$31,500.00
459	Stakeholder-initiated research – electricity	Centre for Energy and Environmental Markets, Uni of NSW	Retail product competition and demand response in electricity markets with smart meters		R	
460	Stakeholder-initiated research – electricity	Queensland Council of Social Service	Electricity and gas customer transfer issues	Report on Qld electricity and gas customer transfer issues	A	\$31,200.00
461	Stakeholder-initiated research – electricity	Queensland Council of Social Service	Electricity supply disconnection on change of residential tenancy	Report on costs to Qld consumers of electricity supply disconnection on change of residential tenancy	A	\$20,800.00

## E. Activities undertaken in 2010/11 consumer advocacy and research projects (continued)

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS (WHERE GRANT APPROVED)	APPROVED (A) / REJECTED (R)	AMOUNT FUNDED
462	Stakeholder-initiated research – electricity	Queensland Council of Social Service	Underlying factors contributing to rates of electricity and gas disconnection for non-payment in Queensland		R	
463	Stakeholder-initiated research – electricity and gas	University of Queensland, School of Economics	Removing barriers to DSP in the NEM		R	
464	Stakeholder-initiated research – electricity and gas	Consumer Utilities Advocacy Centre	Electricity and gas door-to-door marketing to residential consumers		R	
465	Stakeholder-initiated research – electricity and gas	Kildonan Uniting Care	An assessment of consumer decision making in a competitive energy market		R	
466	Stakeholder-initiated research – electricity and gas	Etrog Consulting Pty Ltd	Electricity and gas marketing to small business customers		R	
467	Stakeholder-initiated research – electricity	Etrog Consulting Pty Ltd	Electricity supply disconnection on change of small business tenancy	Report on costs to Qld small business consumers of electricity supply disconnection on change of residential tenancy	A	\$6,500.00
468	Stakeholder-initiated research – electricity	Etrog Consulting Pty Ltd	Electricity and gas customer transfer issues for small business consumers	Report on Qld electricity and gas small business transfer issues	A	\$7,800.00
478	Electricity and gas advocacy/ capacity-building	Australian Council of Social Service	Making Energy Markets Work for Consumers – Consumer Roundtable Futures		R	
482	Electricity advocacy	ClimateWorks Australia	Cogeneration portfolio project: designing solutions to unblock barriers	Report recommending solutions to barriers faced by cogeneration project proponents in securing grid connection	A	\$40,000.00

## E. Activities undertaken in 2010/11 consumer advocacy and research projects (continued)

NO	PROJECT TYPE	APPLICANT	PROJECT	PRIMARY OUTPUTS (WHERE GRANT APPROVED)	APPROVED (A) / REJECTED (R)	AMOUNT FUNDED
483	Electricity and gas advocacy/ capacity- building	ACOSS	National Consumer Roundtable on Energy meeting June 2011	Convening meeting of National Consumers Roundtable on Energy June 2011	A	\$37,461.00
484	Electricity advocacy	Manningham City Council, representing the Street Lighting Group	Appeal against the AER decision on the Victorian electricity distribution determination 2011–2015	Support for SLG participation in appeal of the AER Victorian Distribution determination, and a report for SLG and other local government agencies to disseminate the lessons learned.	A	\$48,864.00
					<b>TOTAL</b>	<b>\$2,220,653</b>

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



**Frank Peach**  
Chair