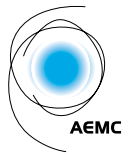


# Annual Report 2011-12

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

31 October 2011

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

Dear Minister

**Australian Energy Market Commission Annual Report 2011–2012**

I am pleased to present the Australian Energy Market Commission 2011–2012 Annual Report.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Pierce', is written over a light grey rectangular background.

**John Pierce**  
CHAIRMAN



As rule maker and developer for Australia's energy market we take a long term view of what needs to be done to assure consumers of reliable, efficiently priced electricity and gas services.

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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.

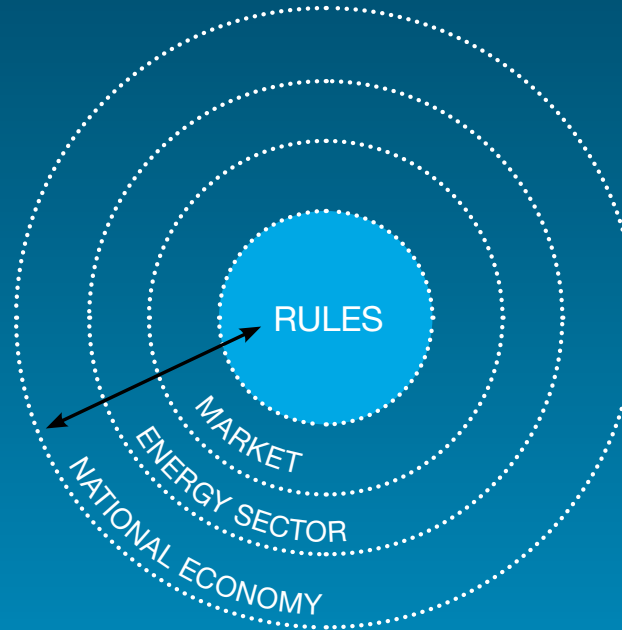
## Values

Leadership, integrity and engagement.

# Our business

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

We have two roles, as statutory rule maker for the energy market and expert adviser for federal, state and territory governments.



There is a strong relationship between our core business as rule maker and our core role as a source of expert, independent advice to ministers. Rules are not isolated from developments in the domestic energy sector and beyond to the national economy.

## Deciding policy

**COAG** is the peak intergovernmental forum with a role to initiate, develop and monitor the implementation of policy reforms that are nationally significant and require cooperative action of state, territory and federal governments.

The Standing Council on Energy and Resources (**SCER**) is responsible for providing a strategic national agenda across the energy and resources sectors.

## Making rules

**The AEMC** makes rules for the national electricity and gas markets and provides policy advice to the SCER.

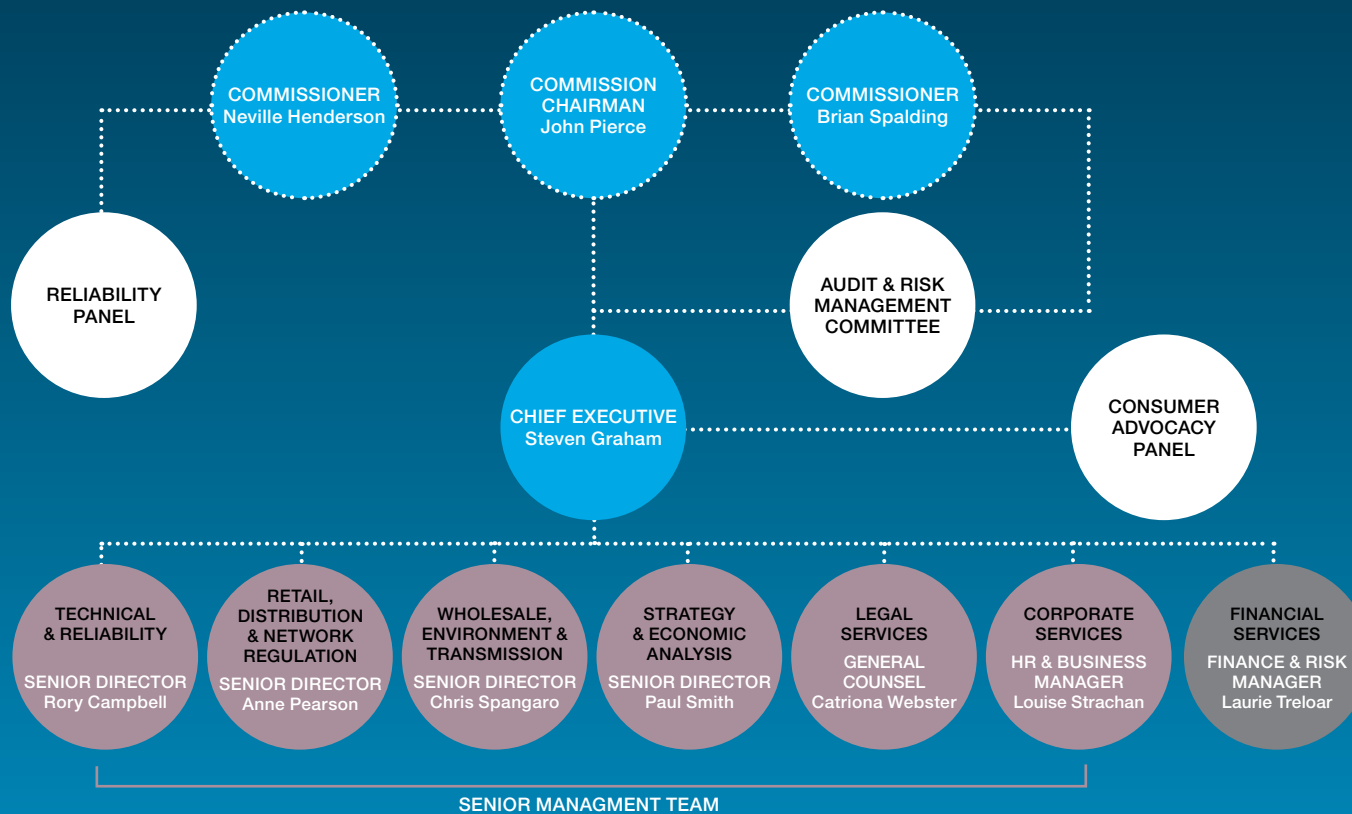
## Implementing rules and proposing change

**AER** – The Australian Energy Regulator is the national energy market regulator and an independent statutory authority with its staff and resources provided by the ACCC.

**AEMO** operates the energy markets and systems and delivers planning advice in eastern and south-eastern Australia. AEMO's core operational roles in the National Electricity Market (NEM) are as power system operator and as market operator.

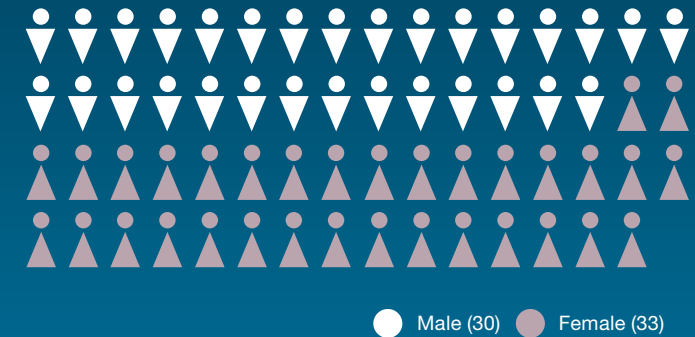
Anyone in the community can make requests to change electricity and gas rules in addition to governments, the AER and AEMO.

# Our organisational structure



# Our employees

## Total employees by gender



## Leadership team by gender



# Our history



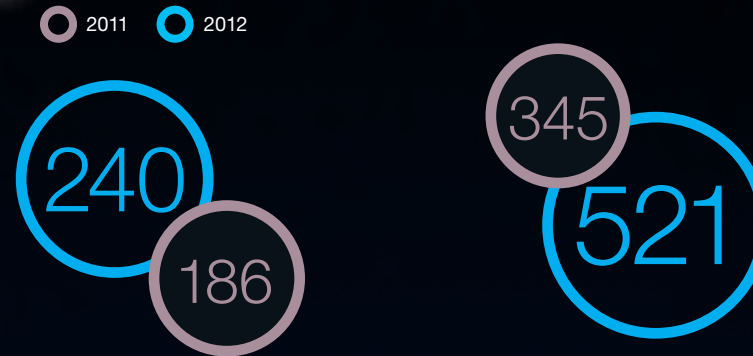


# Highlights of the year

The importance of stakeholder communication increased significantly in the year under review as our work program ranged across many increasingly complex issues.

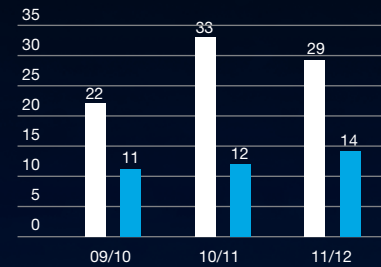
The growing diversity of stakeholders with an interest in our business presents us with different views and concerns in relation to the future of energy. We take our responsibility to address those diverse views very seriously.

## AEMC work program expands in importance and impact



**29% rise** in stakeholder presentations and meetings with the leadership team (not including project team engagement)

**51% rise** in written submissions on rules and reviews



■ Rules    ■ Reviews

### Formal rules and reviews

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

### Strategic objectives for energy market development:

- Contribute to a predictable regulatory and market environment for rewarding economically efficient investment that minimises costs to consumers.
- Build the capability and capture the value of flexible demand.
- Ensure the regulation of transmission and distribution networks promotes timely investment and delivers efficient outcomes for consumers.

# 29

## rule change projects

- 8 rules made amending the National Electricity Rules
- 3 rules made amending the National Gas Rules
- 2 determinations not to make an electricity rule as proposed
- 13 electricity rule change requests continued into 2012–2013
- 3 gas rule change requests continued into 2012–2013

# 14

## market reviews

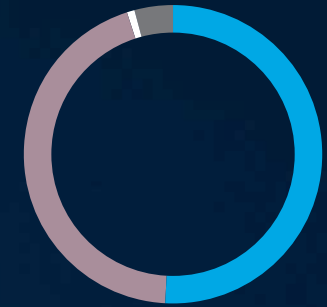
- 7 reviews completed
- 7 reviews continued into 2012–2013

# 5

## market development advice papers

Energy ministers seek our involvement in a range of market matters and this year we worked on the following advice:

- National Electricity Market Resilience (continuing)
- Possible Future Retail Electricity Price Movements 1 July 2011 to 30 June 2014 (completed)
- Possible Future Retail Electricity Price Movements 1 July 2012 to 30 June 2015 (continuing)
- Strategic Priorities for Energy Market Development 2011 (completed)
- Strategic Priorities for Energy Market Development 2012 (continuing)



## Actual expenses 2011–2012

- Employee benefit (51%)
- Supplies and services (44%)
- Grants and subsidies (CAP) (1%)
- Depreciation and amortisation (4%)

- Expenditure was less than within year funding owing to a delay in recruiting appropriately skilled staff and the deferral of some National Energy Customer Framework expenditure until responsibilities and operations fully commence in 2012–2013.
- Funding for the AEMC was provided by each of the states and territories on a proportionate basis.

# Chairman's report

The year under review has been particularly significant for community debates on the future of electricity prices. Energy affordability was the issue of 2011–2012 and over this period the Commission was focused on delivering rules and advice to encourage cost-efficient investment in the energy sector for the future.

While the competitive parts of the energy market, such as the wholesale electricity market have worked well to react to changes in demand levels and to adjust investment plans, there has been concern that investment by networks has not adjusted as well. During 2011–2012 we worked on putting new rules in place to change the way Australia's energy market operates – particularly in relation to the economic regulation of networks. We also made recommendations to energy ministers on further market reform. These proposals were particularly focused on promoting more efficient decisions by networks about their investments.

## Social change and electricity use

Over the past 15 years, the size of our homes, our use of air-conditioning and the big increase in the number of appliances we use has significantly increased the amount of electricity we demand.

At the same time, growing business reliance on electronic systems and processes has made our economy and community more reliant on this power than ever before. A supply fault is not just inconvenient it is potentially very costly.

Community concerns about the environment and related policies to address those concerns are reducing average consumption. Meanwhile our demand for more electricity has risen at certain times – during peak demand periods in the evenings after work or during summers. The high cost of servicing the gap between peak and average demand remains, even though we are starting to see demand falling.

Added to all these factors, the need to replace ageing infrastructure at a time of increasing capital costs means that the overall costs of supplying electricity demand in Australia today is under intense upward pressure.



Chairman John Pierce



## Competition and productivity

The framework in which we operate is set out in our legislation which is focused on the long-term interests of consumers, specifically with respect to things like price, reliability and security. One of the things we are very conscious of at the moment is the uncertainty surrounding the future shape of the energy sector – a direct result of technological change and increasing linkages between the Australian domestic energy market and world energy markets.

Hence, in our work we are seeking to put in place energy market arrangements that are most likely to deliver efficient, reliable supplies to customers over the long term under a wide range of future states of the world.

Reliable delivery of energy services as efficiently as possible, is important not just for consumers directly but also for the performance of the economy overall, as this sector's productivity impacts on the productivity of the overall economy. These linkages were recognised in the formulation of competition policy and identified energy as a priority area for micro-economic reform.

## An integrated view of market reform

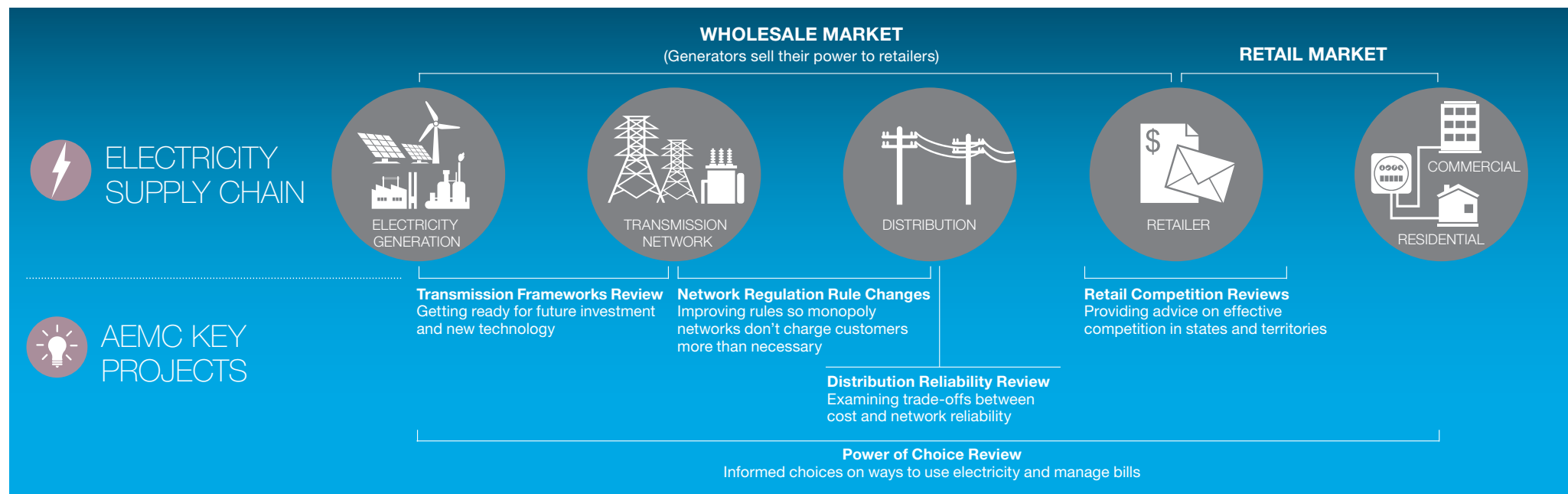
Ensuring that community demand for electricity continues to be met, while at the same time minimising system costs, requires the use of both the demand and supply sides of the National Electricity Market (NEM).

Over the longer term, reducing the gap between peak and average demand reduces the pressure for significant investment in more generation and network capacity. Better use of the electricity supply chain infrastructure and reducing the overall costs of the system should lower energy bills for all consumers.

## The AEMC's reform program

Integrating our market development program to address the market's strategic priorities was the key feature of our activities in 2011–2012.

Immediately after the close of the year under review we released a series of reports which addressed key challenges facing the energy market today including:



### – Power of Choice – Giving Consumers Options In The Way They Use Electricity

Reducing demand can help reduce the cost of supply. A shift away from peak periods or a general reduction in consumption can delay investment in generation and networks – reducing the overall cost and ultimately lowering prices. However, this can only happen when all opportunities for efficient demand side participation (DSP) are identified and captured by the market. That is the focus of this review which released a directions paper in March 2012 for extensive consultation and published a draft report on 6 September 2012.

Our Power of Choice review draft report identified what's necessary to give consumers the information, education, incentives and tools they need to manage their electricity use and save money. It also identified changes needed to encourage network operators, retailers and others to better support consumer choice and use flexible demand to reduce overall industry capital and operating costs.

### – Economic Regulation of Network Service Providers

Electricity transmission and distribution businesses build, own and operate the towers, poles, wires and substations required to transport electricity from where it is generated to where it is needed. These businesses operate as natural monopolies in the regions they service which means that well designed and effectively implemented regulatory arrangements are needed so they can provide value for money for consumers.

The AEMC makes the National Electricity Rules that the Australian Energy Regulator (AER) applies to set revenues that network businesses can earn as well as the prices they can charge over five year regulatory periods.

The AER lodged a rule change request in September 2011 following one full application of the National Electricity Rules to each electricity network service provider. It also submitted a gas rule change request relating to the rate of return that gas network businesses can earn. Another rule change request from a major users' group was consolidated with the AER request as it covered similar issues.

In recent times the significant increases in energy prices have been primarily driven by the network sector – that is the regulated part of the network sector. The price and reliability outcomes in this regulated network sector, in our view, are a function of three things: first, the legal and regulatory framework; second, the application of the framework by the regulator as well as the merits review process; and third, the corporate governance of the businesses involved. In dealing with these rule change requests, we have highlighted that these three things need to work together to get effective outcomes for consumers.

The AEMC released proposed rule changes in its draft determination of 23 August 2012 to improve the strength and capacity of the regulator to determine network price increases so consumers don't pay more than necessary for the reliable supply of electricity and gas. The proposed new rules would change the way the rate of return is estimated to better reflect the efficient rate of return for such businesses; they would promote efficiency by requiring the regulator to not only benchmark network businesses against each other but to publish those benchmarking reports to improve transparency and accountability to the community.

The proposed rules give the regulator more tools to provide incentives for businesses to make efficient investment decisions. They also focus on consumer participation in the regulatory determination process by including requirements for network businesses to indicate in pricing proposals the extent to which it has engaged with consumer representatives; and to provide overview papers to help inform that engagement. The proposed rules require the AER to publish an issues paper after receiving regulatory proposals to help consumer representatives focus on key preliminary issues for their comment.

These rule change requests have attracted unprecedented levels of stakeholder interest and participation. A final determination is due in November 2012.

### – Review of Distribution Reliability Outcomes and Standards

Distribution reliability outcomes are currently set separately for each state and territory in the National Electricity Market (NEM) by jurisdictional regulators, relevant government bodies or individual distribution network businesses. The AEMC's review of distribution reliability outcomes and standards includes both a review of distribution reliability outcomes in NSW and a review of the frameworks across the NEM for the delivery of distribution reliability standards.

In June our draft report on the NSW workstream was published for public consultation and on 31 August 2012 we provided advice on the costs and benefits of alternatives for the future level of distribution reliability in NSW – showing that long-term savings could be achieved if standards were altered to reflect levels of reliability acceptable to the community.

*“integrating our market development program to address strategic priorities was the key feature of our activities in 2011–2012”*

### – Transmission Frameworks Review

Transmission networks are the backbone of the national electricity grid. They transport power from generators to consumers and facilitate competition between generators so consumers can be provided with electricity at the lowest possible cost. In past years generators were mainly located around fuel and water sources. But technological development, economic change and responses to climate change policies are changing the way that electricity is generated and transported. Critically, the location and scale of the new generation sources are likely to be very different to those that dominated in the past, and new solutions will be required to ensure that electricity generation and transmission are as efficient as possible to cope with change.

In the years ahead, wind, wave, gas, distributed generation, solar and other technologies may compete with existing plant for their place as a proportion of overall generation. The AEMC's Transmission Frameworks review considers fundamental changes to the way generators access the market and how transmission investment decisions are made. All of the costs associated with generating and transmitting electricity would be taken into account, with business owners bearing more of the risk of their investments rather than passing them all through to customers.

Analysis and consultation conducted throughout the year under review culminated on 15 August 2012 when we called for public comment on the review's proposed changes.



From top: Commissioners Neville Henderson and Brian Spalding.

### Increasing engagement as our role expands

The new National Energy Retail Rules commenced on 1 July 2012, introducing customer protections over and above the general law that are intended to be more uniform across the National Electricity Market as each jurisdiction adopts the new arrangements. Under these rules there are now requirements for energy retailers to develop customer hardship policies for people in financial difficulties and new rules to give customers comprehensive information on energy costs and options before energy contracts are entered into. We are ready to fulfil our rule making functions in relation to these new rules. As our role grows, so do our obligations to engage deeply with stakeholders as part of our mission to develop the market in the interest of all Australians.

In the year under review we recorded a 51% increase in the number of written submissions to our work program – 521 compared with 345 in 2010–2011. Of those, 313 were made in relation to rule change requests conducted during the year – with 102 written submissions made to a single rule change request, Economic regulation of network service providers.

Increasingly the commissioners and our senior management team are engaged in close conversation with consumers and their representatives, industry and government – testing our thinking and incorporating an increasingly diverse range of views into our rule determinations and our advice to governments.

### Staff leadership

As always it is our staff who allow us to fulfil our role effectively across the electricity and gas sectors. I would like to thank the AEMC commissioners, management and staff for the contributions they have made this year to furthering the National Electricity Objective and National Gas Objective.

**John Pierce**  
CHAIRMAN

# Chief Executive's report

Over a long period of time energy markets have shown a strong ability to forecast and respond to challenging circumstances whether that be changes in technology, regulation, or growth in demand for services.

The nature of those challenges continues to change and we appear to be entering a period where energy and peak demand growth have slowed considerably and may even fall on a per person basis. This is a new paradigm for the industry.

Each year when we report on our work and the development of the market we also comment on the challenges we anticipate for the coming years and the relevance of our work program to addressing those challenges.

While the price of energy has always been one of our central concerns, the escalation of this issue in the general public's awareness has brought significant focus on industry, market design and market institutions. The work of the AEMC is often technical in nature and communications in the past have been largely, but not exclusively, with industry, regulatory bodies, large user associations, and government. The rise in the general public's engagement with the market has accelerated our efforts to provide accessible explanations and information about our findings and recommendations.

Since the AEMC's inception in 2005, we have been on a path of taking on additional functions as the national market developed. The most recent example of this was the commencement of our responsibilities for the National Energy Customer Framework on 1 July 2012.

In recognition of this we have been developing our capability in terms of people and the way in which we manage our organisation's service delivery. Communication with all stakeholders has been an ongoing area of focus. While it is fair to say that the rate of growth in the level of general public interest in our work has been greater than anticipated it is also pleasing to note that the capability building we put in place has been able to respond effectively to date. To support communication with all stakeholders we have developed and published general background material on issues and aspects of the market's operation which will provide a useful ongoing source of information and provide context for recommendations and decisions on particular matters. We expect to expand this information source over time and will also undertake a review of our website in 2012–2013 to improve the accessibility of information.

Our stakeholder engagement strategy is continuing to be adapted to changing circumstances. A significant challenge for the energy markets is effective engagement that promotes effective and informed decision making by market bodies, producers, transporters, service providers and customers so that the market provides customers with the services they want at efficient prices.



CE Steven Graham



*“the strength of our rule change and review processes has been evidenced by high quality engagement”*

Engagement is not just about advocacy or dispute resolution, it is also most significantly about the real option for engagement in consumption decisions through diverse offerings from suppliers, consideration of the value customers place on the trade-off between reliability and cost, and the provision of information by networks and retailers to enable informed decisions by consumers. Significant improvements are required in this area which is a focus of the AEMC's Power of Choice Review.

At the AEMC we are fortunate to have staff and Commissioners with very diverse backgrounds who apply their skills and experience to changing circumstances. During 2012 we have worked on a diverse range of projects that will play a significant role in the future engagement of customers and emerging alternative providers of energy. These include projects that have included subject matter related to demand side, network regulation, economic value of reliability, information provision and planning. While some of these remained in progress at the end of the financial year the impact of these projects has already been seen by the level and quality of engagement from diverse interest groups, many for the first time. The number of submissions to our work has increased by fifty one per cent and we conducted twenty one public forums with diverse attendance.

While there are always opportunities to improve, the strength of the current rule change and review processes set out in legislation has been evidenced by the high quality of this engagement by a significant number of participants and the development of ideas and consensus on outcomes desired.

The wide ranging implications of changes to energy market arrangements require active consultation so we can all understand not only the nature of supply and demand impacts – but the causes of those impacts as well.

The design of the current legislated consultation processes arose from past experience and recognition of these requirements. Participants in the process have acknowledged this and appreciate the opportunity to express and debate their views and concerns even when they do not agree with an AEMC decision. During the coming year we will conduct our second stakeholder survey which will provide stakeholders with the opportunity to provide feedback on all aspects of how the AEMC goes about its work. We will use the results to inform our continued development of the organisation.

As I mentioned previously the skills of the staff and Commissioners are critical to our achievements. We have worked hard across the AEMC to build a team that we are all proud to be part of and I want to thank each and every member of staff for their contribution over the year. The work we do is interesting, challenging and of significance to the broader Australian economy. The search for solutions that are in the long term interests of consumers does not usually take an easy or obvious path. The way in which our staff and Commissioners conduct the search is professional and thorough.

**Steven Graham**  
CHIEF EXECUTIVE

Left to right: Chief Executive Steven Graham; Senior Directors Rory Campbell and Chris Spangaro; Human Resources and Business Manager Louise Strachan; Senior Directors Paul Smith and Anne Pearson; General Counsel Catriona Webster.





Our contribution  
to market  
development

Energy markets across the world are changing – Australia is no exception. While consumers continue to expect safe and reliable delivery of efficiently priced power the market is being asked to move away from the current fuel mix and to produce electricity from less carbon intensive sources.

All of us are changing the way we use electricity. Structural shifts in the Australian economy have seen a general reduction in the energy intensity per unit of Australian Gross Domestic Product, even as our overall use of energy continues to grow.

Residential energy use has driven increases in peak demand, but there is increasing evidence that energy and peak demand growth has slowed considerably and may even be falling on a per person basis. Consumers are also becoming increasingly involved in the market and beginning to demand services which reflect their particular needs. These changes place new demands on the National Electricity Market (NEM). They also create new opportunities for market participants to better serve the needs of their consumers.

Government environmental policies incentivise transition to fuel resources different to those traditionally selected. It also means that the market must begin to offer more specific energy services to consumers, rather than providing a largely homogenous product. As with any major structural change, a number of risks accompany this process.

The challenge for policy makers and the NEM regulatory bodies over the coming years will be to continue to develop a coordinated and competitive approach to facilitate these new demands. This approach must recognise that market systems are effective at delivering desired outcomes. The challenge is developing clear, concise policy and regulatory frameworks that allow markets to function effectively.

### Strategic priorities for energy market development

In October 2011 the AEMC set out for the first time three strategic priorities for energy market development in the long-term interests of consumers. These priorities responded to the identification of four key challenges for the Australian energy sector, which were rising peak demand, rising prices, the need for new investment and market resilience. The priorities were developed after extensive consultation with a broad range of stakeholders. The priorities were:

**Priority One – A predictable regulatory and market environment for rewarding economically efficient investment;**

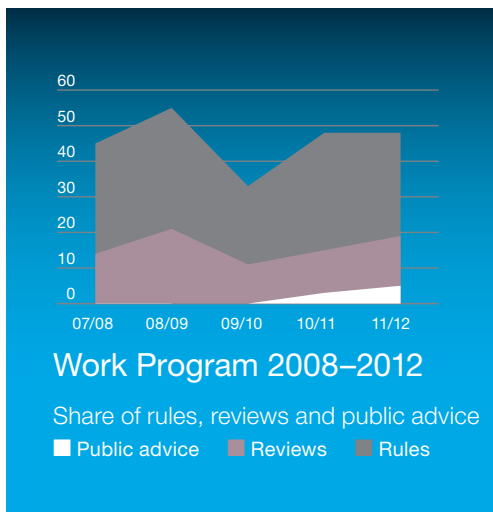
**Priority Two – Building the capability and capturing the value of flexible demand; and**

**Priority Three – Ensuring the regulation of transmission and distribution networks promotes timely investment and delivers efficient outcomes.**

The strategic priorities have helped us to set priorities for the AEMC’s work program and have provided a context for the Standing Council on Energy and Resources (SCER) to consider our future work program.

### Reviewing the strategic priorities for energy market development

Given the major changes in the Australian energy sector in recent years the AEMC will be reviewing its Strategic Priorities later in 2012 to consider whether they remain the most appropriate priorities. While there has been a lot of progress to address the current priorities, the changes in the Australian energy sector mean it is important to consider whether the current priorities best reflect the challenges facing the sector over at least the next three to five years. The review of our strategic priorities will be a consultative process involving a broad range of stakeholders.



## Addressing our strategic priorities

To address the first priority the AEMC has continued to engage with a broad range of stakeholders to discuss and explain the impacts on the regulatory and market environment of a range of policies, including government policies to address climate change. We completed a review of the impact of the Renewable Energy Target on electricity markets.

To help address the second priority we have recently published draft reports to SCER for our Power of Choice and electric vehicle reviews, and final reports will be published later this year. The Power of Choice review is considering how customers can be given the tools and information to make efficient choices about their electricity consumption. This can allow the most efficient decisions by customers about how much electricity to consume and when.

To help address the third priority we have made a draft determination for the network regulation rule change proposals, and a final determination will be made later in 2012. Our draft determination includes proposed changes to the rules that affect the largest drivers of network cost increases – capital investment and the rate of return. We have also provided the New South Wales Government with a report assessing options for different levels of reliability based on an assessment of the level of reliability the community wanted.

We provided SCER with a second interim report for our Transmission Frameworks Review earlier this year and a final report will be provided in 2013. The AEMC is considering options that would better allow for investment in generation and transmission that reduced overall total system costs. Generators would drive much investment in new transmission capacity rather than network service providers and would pay the costs and bear the risks of inefficient investment rather than customers as is currently the case.

## Consumer choices to drive electricity savings

### The Power of Choice Review – giving consumers options in the way they use electricity

The Power of Choice Review is proposing reforms to the National Electricity Market so that families, business and industry can have more control over the way they use electricity and manage their bills.

The review's draft report includes proposals for change to every part of the electricity supply chain – enabling greater demand side participation in the market to help minimise the cost of supply.

This work includes looking at ways for consumers to have more control over the way they access electricity and the prices they pay. This means that consumers need information, incentives and tools to manage their electricity use. The draft report proposes reforms to the electricity market framework and rules to make these changes possible. It also identifies changes to encourage network operators, retailers and others to better support consumer choice and use flexible demand so that the need for investment in generation, poles and wires can be delayed.

This package of proposed reforms aims to support responses to evolving market, technology and consumer interest over the next 20 years.

Proposed reforms would enable consumers to make informed choices about their energy consumption. These include proposals for different electricity tariffs at different times of day and in different locations to reward consumers for changing their behaviour; as well as incentives for major users to reduce their demand on networks, particularly at peak demand periods. We also recommend a new framework to encourage commercial investment in metering technology, and improved access to consumption data to inform consumer choices.

The AEMC has taken a highly consultative approach in conducting the review, having previously published an issues paper, a directions paper and a draft report to inform our conversations with stakeholders. We have received 91 stakeholder submissions to date, with more to follow in October 2012 in response to the draft report. Submissions have been received from diverse groups such as electricity and gas network businesses, government departments, consumers and consumer groups (representing both large and small consumers), local government organisations, private individuals, metering providers, DSP technology companies, economic consultants, state utility regulators, environmental groups and retailers. Two public forums were held, and the review's Stakeholder Reference Group has met four times so far. We also held specific industry workshops on metering and wholesale market issues.



## Stronger regulation for networks

### Economic Regulation of Network Service Providers and Price and Revenue Regulation of Gas Services

Pricing rules for transmission businesses (2006) and distribution businesses (2008) were made at a time when the biggest concerns were the risk of underinvestment in infrastructure and meeting the reliability standards put in place by the governments of the day. Since then, the experience of the first full cycle of regulation tells us that improvements can be made, especially around the flexibility available to the regulator to adjust its approach to changes in operating environments.

The economic regulation of network services project started in October 2011. It addresses issues such as expenditure allowances/incentives and rate of return, arising out of two separate rule change requests.

The AEMC has proposed new rules to better equip the regulator to set network prices so consumers don't pay more than necessary for reliable supplies of electricity and gas.

At the time of writing this annual report we were considering public submissions to the draft determination of 23 August 2012 in relation to these rule change requests prior to a final determination due in November 2012. The draft determination would allow the Australian Energy Regulator (AER) to benchmark network businesses against each other; require the AER to publish annual benchmarking reports on network business performance; and allow the AER to take past efficiency into account when determining future spending allowances for network businesses.

Some issues apply to both the electricity and gas sectors. Given the scale of the project an additional general consultation stage with a directions paper was added to the standard rule change process, and separate consultations have been undertaken on specific issues including cost of debt and options for implementation. By October 2012 a total of 114 submissions had been received since project start. Submissions were received from stakeholders such as electricity and gas network businesses, government departments, consumers and consumer groups (representing both large and small consumers), local government organisations, private individuals, management consultants, state utility regulators, environmental groups and retailers. We held six public forums over the course of the project.

## Australian energy sector continues to experience rapid change

The Australian economy has been experiencing major structural changes in recent years that have in part been driven by developments in the energy sector, but which have also had significant impacts on the energy sector. Extensive natural gas found in Queensland and New South Wales means that the wholesale price of gas on the east coast of Australia is expected to be increasingly linked to prices elsewhere in the Asia Pacific region.

Technological developments continue to change the nature of the energy sector. The cost of solar PV has reduced significantly in recent years. This creates the potential for cost effective distributed and micro generation in many parts of Australia. Retailers and network service providers are developing a range of devices and services to help customers better understand and manage their electricity consumption.

These changes have occurred at a time when Australian governments have been seeking to put in place a range of policies in response to concerns about the impact of climate change on the environment. The Renewable Energy Target is already driving significant changes in the mix of generation in Australia. The price on carbon emissions introduced in July 2012 has the potential to also significantly influence the future mix of generation capacity. State governments are also taking a range of initiatives to restructure the energy industry in their state, including privatisation of generators in New South Wales, a review of network businesses in Queensland and consideration of proposals from an expert panel to restructure the Tasmanian electricity sector.

## A strong basis to meet the challenges

While recognising the challenges and changes that the Australian energy sector is experiencing, it is also important to note that the market has continued to operate since its inception in 1998, and has delivered a reliable supply. Investment has been forthcoming to meet growth in energy and peak demand, and the design of the market has allowed improvements in the market and regulatory arrangements to respond to changing circumstances without creating disruption or regulatory uncertainty.

The average wholesale spot prices in the four mainland east Australian states were the lowest they have ever been in real terms in 2010–2011 and 2011–2012. The wholesale spot market has factored the price on carbon emissions into the bids from generators from 1 July 2012, and continued to function efficiently. There is some evidence of improving liquidity in the financial contract markets for wholesale electricity.

International surveys continue to indicate that Australia's retail energy markets are amongst the most active in the world. Many customers are now benefiting from the opportunity to choose market offers that better meet their needs than standing contract or regulated tariffs.

## Implementing current reviews

Implementing the outcomes of our Power of Choice review and the work to improve the regulation of network businesses involves significant challenges that will involve many stakeholders across the sector. Increasing the scope for more effective demand side participation will require significant changes across the supply chain, including to the wholesale market, more efficient network tariffs and different service offerings by retailers and other energy service providers. The rule changes that the AEMC can make are only part of the requirements for effective regulation and performance of network businesses. The regulator needs to apply the rules effectively, and the shareholders of the network businesses need to oversee the provision of high quality business plans to the regulator and provide strong incentives for the management of businesses to improve efficiency.

## Cost efficient electricity generation and transmission for the future

### The Transmission Frameworks Review

The Transmission Frameworks Review started in April 2010. It is considering a broad range of issues associated with electricity transmission arrangements (transmission access, congestion management, generator locational signals, transmission planning and network connections) in a comprehensive, holistic manner.

Under current arrangements customers pay the full cost of transmission network investment; and generators make investment decisions which are not fully exposed to the costs of transmission in different locations. This year extensive public consultation was conducted – culminating in the August 2012 publication of the review's second interim report which includes proposals for a more market-oriented approach to providing transmission services and to direct some investment risk from customers to generators.

The review's second interim report proposals include choices for generation and transmission businesses to restructure their contractual relationship as well as proposals for significant strengthening of national transmission planning.

We consider that the combined costs of generation and transmission should be taken into account when investment and operational decisions are made.

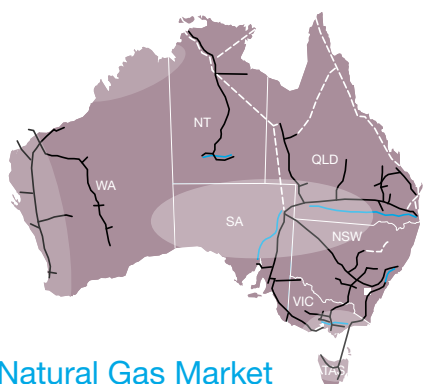
Under the proposals generators would be able to choose to pay for enhanced rights to the transmission network which transports power sold by generators to consumers. This charge would reflect the long-term costs of providing transmission network services and reflect the different costs of providing access to the network in different locations. The report includes proposals to improve the efficiency of connecting new load and generation to the transmission network. These aim to improve the ability of connecting parties to negotiate effectively with monopoly transmission providers by introducing mandatory cost and technical information disclosure in connection negotiations.

The proposals set out in the review's recent second interim report, if adopted, would represent the most significant developments to the National Electricity Market since its introduction. In all, 88 stakeholder submissions have been received prior to the release of the review's second interim report. Two public forums have been held, and the review's Stakeholder Consultative Committee has so far met five times.






This review's final report is due in early 2013.



## National Electricity Market



## Natural Gas Market

-  Existing natural gas pipelines
-  Proposed natural gas pipelines
-  Liquid pipelines
-  Major natural gas fields
-  NEM

The National Energy Customer Framework is currently in effect in the Australian Capital Territory, Tasmanian and Commonwealth jurisdictions. It is expected to be adopted by other jurisdictions in the future, and will help deliver a consistent framework of consumer protections in the eastern states. The continued imposition of retail price regulation, particularly if it is not well designed, in all jurisdictions other than Victoria creates the risk that the benefits of retail competition for consumers are not fully realised. The AEMC will shortly commence a review of retail competition in the electricity and gas markets in New South Wales, with recommendations to be made to SCER in 2013.

### Looking to the future

The AEMC continues to develop as an organisation to perform our existing roles as well as possible and to take on the new roles we have been given, including being the rule maker for the national energy retail rules. We are continually looking for ways to enhance our engagement with the broadening range of stakeholders interested in our work.

We have steadily developed as our responsibilities have increased, and we continue to focus on having the right mix of skills and experience amongst our staff to fulfil our responsibilities.

### The shift to gas

The National Electricity Market (NEM) faces a number of challenges related to structural and sectoral changes in the wider Australian economy. As with the introduction of the climate change policy initiatives discussed previously, market frameworks will require careful adjustment and management to ensure that the benefits of these changes can be fully realised.

The purpose of introducing a carbon price is to make carbon intensive generation less competitive relative to lower emissions plant. Much of the NEM's baseload is from brown or black coal which will become increasingly uncompetitive as the price of carbon increases.

Renewables will fill some of the gap left by coal generators; demand management is likely to play an increasing role and gas is set to be increasingly significant as its emissions intensity is around half that of coal generation.

If gas generation plays an increasingly central role in meeting NEM demand, electricity and gas markets will become further interlinked. This will have implications for the management of the security and reliability of supply in the NEM, as any major supply interruptions in the gas supply chain may have major knock-on effects for supply of electricity.

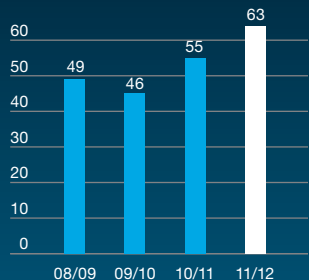
LNG development will link domestic and regional gas prices, making it increasingly difficult to calculate gas forward prices and design gas supply contracts. This will increase the complexity of making trade-offs between the cost of gas, coal and carbon when developing new generation projects.

The extent of these risks will require careful oversight by policy makers and market institutions. As both the electricity and gas sectors are going through a period of rapid transformation, there is scope for other interactions to develop. Addressing these potential interactions requires careful consideration of the implications of new policies for each sector individually and in combination.

# Our people





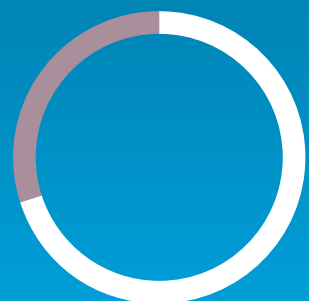


## Employee numbers



## Employees by gender (June 2012)

■ Male (30) ■ Female (33)



## Leadership team by gender (June 2012)

■ Male (7) ■ Female (3)

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 governments.

### Recruitment

In the year under review our staff numbers increased in order to support our expanded role and responsibilities. Vacant positions are advertised internally and externally and searches are focused both in Australia and overseas for applicants with specific energy sector expertise as well as interpretive and analytical skills. While we supplement our skills from both the local and international market, the AEMC seeks to provide development opportunities and career paths for its staff. 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

Creating a high performance culture that expects and rewards strong performance is essential to the AEMC's future success. An integrated approach to managing individual and team performance across the organisation is therefore essential. As a key component of a high performance culture, performance management at AEMC strives to:

- clearly align goals and expectations;
- provide candid, frequent coaching and feedback;
- help facilitate performance assessments and feedback;
- help facilitate development and career progression; and
- recognise and reward strong performance.

During the year in review the AEMC undertook a review of its people processes and in particular its competency and role profile framework, position descriptions and the performance management process. The review aimed to support performance, engagement and development of AEMC employees as well as assisting to drive business growth and achieve the AEMC's strategic objectives.

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.

Our commitment to developing our people continues through ongoing 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.

### Undergraduate program

The AEMC is an employer partner in the University of New South Wales' Co-Op Program. The program is an industry linked scholarship program that provides industry training and professional and leadership development to selected undergraduates in economics, accounting and other disciplines. As part of this program students attend a six month work placement at the AEMC.

## Developing new talent

As well as growing the capabilities of our staff, the AEMC is also committed to developing new talent and providing opportunities for school leavers to train in the area of administration.

This year, the AEMC developed and implemented a two-year rotational administration program designed to introduce school leavers to the administrative environment of our organisation. The program provides an opportunity to learn administrative practices, develop professional skills, train in technical competencies as well as the completion of a Certificate IV in Business Administration.

## Equal Opportunity

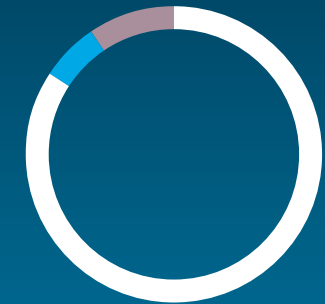
Our commitment to diversity is demonstrated by our 53 per cent representation of women in our workforce as well as the diversity in the backgrounds of our staff. This is reflected in our senior management team where three of the seven leaders are women.

## 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.

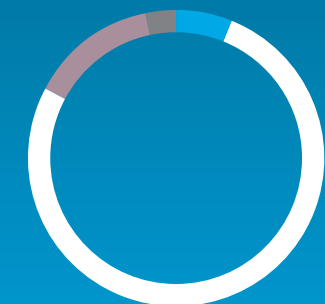
## Wellbeing

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. Employees also have access to an employee assistance program which aims to assist employees where personal or work related problems affect, or have the potential to directly or indirectly affect, their performance.



Employees by employment status

■ Full Time (53) ■ Part Time (4)  
■ Fixed Term (6)



Employees by role  
(June 2012)

■ Commissioners and CE (4)  
■ Core rules and market development (48)  
■ Corporate support (9)  
■ Consumer Advocacy Panel (2)



# Governance

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Our responsibility is to focus the AEMC's analytical skills on problems raised by structural change in the nation's energy markets. We work with stakeholders to find solutions which are in the long term interests of all consumers. We follow the principles of sound corporate governance in order to fulfill that responsibility.

### Corporate responsibility

AEMC Commissioners are appointed by Australia's state and federal governments to make the rules regulating the national electricity market, national electricity systems and aspects of natural gas markets; and to advise governments on overall energy market development. The Commissioners are supported by the AEMC's senior management team and staff. Together they discharge rule making and market development roles in line with the AEMC's Code of Conduct which is available at [www.aemc.gov.au](http://www.aemc.gov.au) and requires us all to act with honesty and integrity.

### AEMC Strategic and Business Plan

Over the seven years since our establishment in 2005 we have built the AEMC on strategic planning and implementation; and sound financial management.

Transparency and accountability are promoted in all aspects of our operations.

Our organisation has grown and matured in recent years.

- Our statutory decision making, stakeholder relationships and business operations are guided by the AEMC's values and vision.
- Our strategic and business plan provides both long and short-term goals which we report against each year.
- We also put considerable effort into developing the AEMC's strategic priorities for market development. This process identifies long term issues facing the energy market; and explores their implications for the way we need to think about our business. Since this process was introduced in 2010–2011 it has helped guide our decisions in terms of devoting time and resources to priority areas where we can provide the most value.

The AEMC's senior management team holds strategic planning sessions to formally evaluate issues, risks and opportunities to be addressed in its planning and service delivery. Planning is augmented with feedback from stakeholder consultation and Council of Australian Government energy policy priorities.

We have continued to develop the AEMC during the year 2011–2012 to help us remain able to effectively fulfill our roles and be ready to take on our new responsibilities.

## Our governing philosophy

Culture is the foundation of our effective operation. The shared values of AEMC people are leadership, integrity and engagement. Each of us reflects those values in how we act and discharge our functions.

We show leadership within our teams to deliver on our corporate goals. Externally we provide information and advice to enable governments to achieve their objectives in a manner that retains the effectiveness of markets.

We focus on engagement to build relationships both with each other and with our stakeholders. Conversations help us understand our operating environments and how our decisions will affect people in the real world.

We act with integrity to maintain our well established reputation for independent thinking and objectivity, and to encourage open and frank dialogue. We are impartial, transparent, fair and honest.



## Key goals we set out to achieve in 2011–2012

We are delivering on our vision to be an essential source of market development advice for policy makers and to be regarded as an excellent rule maker. To do that we have continued to develop the AEMC as an organisation. Over the last year we have particularly focused on:

- Greater engagement with stakeholders in areas where we have, or are gaining, new responsibilities. This includes the gas sector and representatives of residential consumers with a particular interest in the National Energy Customer Framework. We have developed a range of tools to communicate the key conclusions and outcomes of our work to the widening range of stakeholders interested in our work.
- Continuing to develop a merit based high performance culture. One of the initiatives undertaken during the year under review was to update our performance management process that is used by all staff. We encourage managers to provide their staff with regular feedback. Development needs are identified and training provided to address those needs.
- Embedding our strategic priorities for energy market development as a key focus for our work and the reporting of progress in our work program. This includes engagement with the Standing Council on Energy and Resources on how the consideration of our future work program is influenced by the strategic priorities.

## Forward planning

During 2012–2013 we will review and update our strategic priorities. Alongside this we are continuing to make sure that we have the skills and resources to meet the challenges facing the Australian energy market. The development of the AEMC builds on the strong foundations we have put in place since its establishment. Over the coming year we will particularly focus on:

- Continuing to develop our stakeholder engagement, including updating our annual stakeholder engagement plan. We will be gaining external feedback to inform the further develop of our stakeholder engagement.

- Developing the skills and abilities of our staff to deliver high quality rule change and review work. This includes embedding our new performance management processes and updating our longer term strategy for effective people management.
- Continuing to improve the quality of the analysis and decision-making of the AEMC. This includes continually reviewing the processes for decision-making to reflect the increasing scope of our responsibilities. We also continue to focus on developing our project management processes and the resources for staff undertaking rule change and review processes.

We also continue to maintain and update our corporate support functions, including IT systems and office facilities to support the work of our staff.

## Stakeholder engagement

We depend on the insights and views of our stakeholders to help inform our thinking and challenge our proposals for reform. Our reputation is fundamental to our ability to effectively perform our role as rule maker and market developer. Continuous dialogue is one of our key commitments.

Engagement is embedded in the AEMC's daily business. It is important that stakeholders are given every opportunity to engage effectively with us – to enrich our advice to policy makers in government and to make sure we have the best possible energy market rules. We consult at key milestones in all our formal market reviews and rule changes and submissions and forum proceedings are incorporated into our consideration of market development issues.

In recent years we have also taken steps to expand our general community engagement – expanding our relationships with consumer groups and their representatives.



## Stakeholder engagement planning

The AEMC has systems in place to ensure that our stakeholder dialogue is meaningful and regular. In the year under review we continued to develop the role of our senior directors to promote engagement as one of their primary responsibilities.

The importance of stakeholder communication increased significantly in the year under review as our work program ranged across many, increasingly complex energy policy issues. The growing diversity of stakeholders with an interest in our business presents us with different views and concerns in relation to the future of energy. We take our responsibility to address those diverse views very seriously.

Engagement is how we increase our ability to provide meaningful input into development of Australia's energy markets. We have for some years followed a program of continual improvement in relation to our written communication in order to increase access to us and the work we do.

## Engagement activities in 2011–2012

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.

Our approach to engagement is based on mutual understanding and we work to ensure the clear articulation of reasons behind our decisions. Stakeholders are kept informed of AEMC decisions and news directly through email updates and via website publishing of all documents including determinations, reports, supporting publications, submissions, transcripts and the proceedings of expert panel meetings. Notices of all our public meetings are posted to the AEMC website and notified to stakeholders by email.

This year we addressed 521 written submissions to all projects undertaken throughout the year under review (compared with 345 in 2010–2011 and 313 in 2009–2010).

## Proponents

A request to make or amend a rule can be made by anyone including governments, the AER, and/or any individual or group in the community, except the AEMC (minor rule changes being the exception). The proponents of new rule change proposals (electricity and gas) in the last three annual reporting years are in the table below.

Proponent	2009–2010	Proponent	2010–2011	Proponent	2011–2012
AEMC	1	AEMC	2	AEMC	1
AEMO	8	AEMO	11	AEMO	3
AER	1	Hydro Tasmania	1	AER	2
ETSA Utilities	1	MCE	3	AER and EURCC*	1
Grid Australia	1	MEU	1	Copper Development Corporation	1
MCE	2	MAREC	1	Climateworks, Seed, Property Council	1
Minister SA	1	Reliability Panel (Rules requirement)	1	Electranet	1
Minister VIC	1	Senergy	1	EURCC	1
Reliability Panel (Rules requirement)	1	Tasmanian Government	1	Grid Australia	1
<b>Total</b>	<b>17</b>	United Energy	1	IPRA and LYMMCo	1
		<b>Total</b>	<b>23</b>	MCE	1
				MEU	2
				Reliability Panel	1
				<b>Total</b>	<b>17</b>

\* Separate proposals consolidated into one process.

### Growing consumer focus

The role of consumer engagement in energy regulation was very relevant to a number of our projects this year with strong consumer representative involvement in project consultative and working groups. In April 2012 the AEMC was invited to a workshop convened by three of the most active consumer advocacy groups in the energy sector – the Consumer Action Law Centre, Consumer Utilities Advocacy Centre and the Credit Commercial and Consumer Law program at Queensland’s University of Technology.

We have been building our relationship with these bodies for some years but it was the first time that leaders of these consumer groups had met with AEMC, AER and Consumer Advocacy Panel executives to discuss broad strategic issues affecting energy consumers.

### International Confederation of Energy Regulators (ICER)

The AEMC is a member of the International Confederation of Energy Regulators (ICER) – an international body representing over 200 regulatory authorities around the world.

ICER’s aim is to improve policy maker awareness and understanding of energy regulation and its role in addressing a wide spectrum of socio-economic, environment and market issues. It also supports developing nations in their efforts to establish electricity markets and address issues in relation to the alleviation of energy poverty. Approximately two billion people do not have access to electricity or gas and the implementation of network based systems for many nations is not a viable solution.

The AEMC representative on the ICER Steering Group is our Chief Executive, Mr Steven Graham. The AEMC has a seat at the steering group table because of our unique role as a rule maker and market developer. Our energy market and our market governance framework is very different to what is found in the rest of the world – it is a model which is closely watched in international forums.

Stakeholder	AEMC engagement
Standing Council on Energy and Resources	We report regularly to federal, state and territory energy ministers in relation to our work program and emerging issues for gas and electricity markets.
Jurisdictional governments, their departments and regulators	We hold formal quarterly briefings with federal, state and territory officials who provide support to SCER energy ministers on stakeholder views and stationary energy sector risks and challenges. We have broadened this engagement to include other government agencies with interests in the energy sector (such as environment, treasury, infrastructure, planning, the Productivity Commission and financial market regulators).
Governance framework agencies (AEMO and AER)	The AEMC board and senior management team conduct regular leadership team briefings with the Australian Energy Regulator and with AEMO board, senior management and staff levels.
Energy market participants	The vast majority of submissions to our reviews and rule change projects are made to us by energy market participants and formal discussion is conducted around individual rules and reviews. In 2012 we significantly raised the level of informal conversations with market participants and their industry associations.
Consumer representatives	We regularly participate 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. We are gradually expanding our engagement with jurisdictional energy ombudsmen and other consumer advocates.

## Legislative framework

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

In addition to its powers and functions under the Australian Energy Market Commission Establishment Act 2004 (SA) and National Energy Laws, the AEMC is required to comply with a number of South Australian, New South Wales and Commonwealth laws relating to such matters as record keeping, information disclosure, financial reporting and employment related matters. For example, the AEMC complies with the Fair Work Act 2009 (Cth), New South Wales work health and safety laws and South Australian laws such as the Freedom of Information Act 1991 (SA), the Public Finance and Audit ACT 1987 (SA) and the State Records Act 1997 (SA).

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 the Australian Energy Market Operator.

## 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 2011–2012. All documents we publish regarding our rulemaking, reviews of the National Electricity Market (NEM) and all versions of the National Electricity Rules, National Gas Rules and National Energy retail Rules are on our website at [www.aemc.gov.au](http://www.aemc.gov.au). They can also be inspected at our offices. A request under the Freedom of Information Act 1991 (South Australia) is not required to inspect them.

## Environment

The AEMC's core business revolves around knowledge – reviews and the development of rules. As a result, we have a small environmental footprint. We are nevertheless committed to managing our environmental footprint and improving the efficiency with which we use resources. Measures this year included:

- 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 teleconferencing facilities where appropriate;
- the disposal of toner cartridges through recycling programs.

## Commissioners

Our Chairman, Mr John Pierce, and the two part-time commissioners, Dr Brian Spalding and Mr Neville Henderson bring diverse professional backgrounds to their rule determinations and formal market reviews. They have all been active participants in Australia's energy reform program over a number of decades. Each of them played key roles in establishing the National Electricity Market and its legal and institutional arrangements.

The Chairman and commissioners meet and engage widely with stakeholders across all the states and territories.

*“Our senior management team formally evaluates issues, risks and opportunities to be addressed in its planning and service delivery”*



## Commission role

Overseeing	Governance	Risk and reporting
Reviewing AEMC Strategic and Business Plan and approving corporate development initiatives as developed by the senior management team.	Considering market development outcomes flowing from our rule making and advice to governments in line with the energy market objectives which must ultimately focus on the long term interests of consumers.	Reviewing the AEMC's budget, monitoring financial performance.
Approving major expenditures and monitoring budget management.	Evaluating the Commission's performance and determining its size and composition.	Considering and approving the AEMC's annual financial statements.
Planning for the Chief Executive and executive succession and remuneration.	Reviewing and monitoring corporate governance policies and practices.	Ensuring compliance with the requirements of the SA auditor-general's department.

While the Commission retains responsibility for the AEMC's strategic direction at all times the Chief Executive has delegations to initiate all rule changes; to decide if a rule change request is misconceived; and has the authority to make decisions in relation to the consolidation of two or more rule requests.

## Audit and risk management

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

- Audit and Risk Management Committee monitoring of the overall risk management framework, financial reporting processes, processes for compliance, performance of auditors and 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.

## 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. The AEMC did not suffer any major business interruptions in the year under review.

## Audit and Risk Management Committee

The Audit and Risk Management Committee is chaired by an independent external member, Mr Glenn Appleyard. Mr Appleyard is Chairman of the Audit and Risk Management Committee and currently Chair of the Tasmanian Economic Regulator; a member of the Commonwealth Grants Commission; and formerly a member of the Australian Accounting Standards Board for nine years. Mr Appleyard brings an in-depth understanding of risk evaluation and compliance to this important management function. Other members of the committee are AEMC Chairman, Mr John Pierce, and Commissioner Brian Spalding.

During the year under review, PricewaterhouseCoopers were appointed internal auditors. This service was previously provided to us by Deloitte Australia and we gratefully acknowledge that firm's valuable contributions to our development as an organisation.

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
Committee Chair, Glenn Appleyard	From 4 May 2010	4	4
John Pierce	From 2 June 2010	4	4
Brian Spalding	From 19 April 2010	4	4



**John Pierce**  
Chairman

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

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 experience in the processes of government at state and federal levels, having worked at the most senior levels in policy development and provision of policy advice to ministers, cabinets, ministerial councils and the Council of Australian Governments. He holds a BEc, Hon. (UNSW).



**NEVILLE HENDERSON**  
Commissioner

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

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. Mr Henderson holds a BCom (University of Melbourne) and a Diploma of Mechanical Engineering (Footscray Technology College).



**BRIAN SPALDING**  
Commissioner

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

Dr Spalding has held key implementation and operational roles in national and state electricity markets since their conception in the early 1990s. He is a Board member of the Australian Renewable Energy Agency (ARENA) which is part of the Australian Government's Clean Energy Future package. He was Chief Executive Officer of the National Electricity Market Management Company (NEMMCO) where he was responsible for the day to day operation of the National Electricity Market and the electricity power system for south and eastern Australia. In 2009 he became Executive General Manager Operations of the new Australian Energy Market Operator. 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.

Commissioner	Current Term	Statutory Meetings		Governance Meetings	
		Eligible	Attended	Eligible	Attended
Neville Henderson	19 October 2009 – 18 October 2014	35	32	11	9
Brian Spalding	19 April 2010 – 18 April 2013	35	35	11	11
John Pierce	2 June 2010 – 1 June 2015	35	28	11	11

## 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. During the year under review Mr Pierce served as Chairman of the Tasmanian Parliament's Electricity Supply Industry Expert Panel. This appointment was supported by the then responsible Minister for the AEMC the Hon Patrick Conlon MP on 30 October 2010. The Panel completed its work in early 2012.

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 Sector Group of the Attorney General's Trusted Information Sharing Network, and is on the board of the Australian Centre for Renewable Energy (until 30 June 2012) and the Australian Renewable Energy Agency.

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.

## 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.

*“Our aim is to demonstrate effective leadership in respect of our statutory responsibility for market development through closer engagement with stakeholders”*

### **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.

### **Catriona Webster**

#### ***General Counsel***

Ms Webster has experience in in-house legal roles focussed on energy market governance and in private practice as a corporate lawyer. Prior to joining the AEMC, Catriona was corporate counsel with The Marketplace Company and Logica Australia and was involved in the implementation, governance and administration of gas retail markets in NSW, ACT, SA and WA and the transition of jurisdictional gas market operators into the Australian Energy Market Operator in 2009. Prior to these roles, Catriona was a Senior Associate in the mergers and acquisitions group at Mallesons in Sydney and a lawyer at Linklaters in London. She holds a BA (Adelaide) and an LLB (Hons) 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.



# Expert Panels

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# AEMC Reliability Panel

The AEMC Reliability Panel consists of 10 energy sector representatives appointed to provide expertise on issues related to the safety, security and reliability of the national electricity system. It is established by the National Electricity Law.

The Panel is chaired by AEMC Commissioner, Mr Neville Henderson, and its members broadly represent all stakeholders interested in the operation of the electricity market including generators, network service providers, retailers, consumer groups and the market operator. Its current membership also includes expertise in financial and demand side response issues.

The appointments of current members will expire in December 2013 with two exceptions – Mr Neville Henderson’s term expires on 2 November 2012 and Mr David Swift’s term is continuing, as this appointment as the AEMO representative’s position on the Panel is not time-limited.

The Panel held seven meetings during 2011–2012, including meetings held in-person and via teleconference. Some of the work of the Panel was also conducted out of session.

Specifically, the AEMC Reliability Panel in 2011–2012:

- determined the system restart standard, which sets out the requirements to be followed by AEMO in economically acquiring sufficient system restart ancillary services. These services are important in minimising the disruptions to businesses and the broader community in the event of a major supply interruption. The review resulted in a new standard to apply from August 2013;

- performed the first of its three-yearly reviews of the template for generator compliance programs, which was established by the Panel in 2009. The template provides guidance to generators in developing compliance programs to meet technical standards under the National Electricity Rules. The review identified minor amendments to improve the clarity and use of the template by generators in developing their compliance programs; and
- undertook its annual market performance review where it considered the performance of the National Electricity Market against the standards and guidelines the Panel determines under the NER for reliability, security and safety. The review’s final report provides an assessment of power system performance in 2010–2011, including details on power system incidents and how the reliability standards and guidelines were met during the year.

In carrying out these three reviews the Panel consulted widely and, where appropriate, took into consideration specific operational issues experienced by the market operator and market participants.

For the three 2011–2012 reviews, a total of 14 stakeholder submissions were received and reviewed by the Panel. One public meeting was held during the year, which was attended by 11 stakeholders to discuss the Panel’s review of the template for generator compliance programs. Public meetings were not held for the other two reviews due to limited registrations. For every review it performs, the Panel holds at least two rounds of consultation and invites interested stakeholders to attend a public meeting.

## Panel member attendance for financial year 2011–2012

Member	Organisation	Panel meetings	
		Eligible	Attended
Neville Henderson (Chairman)	AEMC	7	7
David Swift	Australian Energy Market Operator (AEMO)	7	4
Trevor Armstrong	Ausgrid	7	6
Simon Bartlett	Powerlink	7	5
Mark Grenning	Rio Tinto	7	6
Chris Murphy	Secure Energy	7	6
Andrew Nance	St Kitts Associates	7	6
Tim O’Grady	Origin Energy	7	4
Stephen Orr	International Power GDF Suez	7	6
Nick Sankey	Commonwealth Bank	7	5

## Reliability Panel purpose

In addition to providing specialist advice to the AEMC the Panel determines standards and guidelines which help maintain a secure and reliable power system. Its work program is controlled by the terms of reference received from the AEMC and from requirements in the rules. The AEMC also asks the Panel for advice on AEMC reviews.

Every four years, Panel members determine the standard for unserved energy and recommend the market reliability settings which are 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 settings balance investment signals for new generation against the financial risks to participants in the National Electricity Market's wholesale sector.

The Panel reviews and determines the power system security and reliability standards (including the reliability standard and frequency operating standards for the NEM mainland and for Tasmania). It determines the standard for system restart if a major blackout happens. It monitors and reports system standards and access standards for network users such as generators or large customers.

It also develops and determines various guidelines to direct the market operator'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 power system's operation against the security and reliability standards and various guidelines. In addition, it reports on any major power system incidents and may recommend measures to mitigate against similar incidents in the future.

## Consumer Advocacy Panel

The Consumer Advocacy Panel (CAP) is an independent body established under the AEMC Establishment Act 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 Panel is not subject to direction or control by the AEMC.

CAP is accountable to the Standing Council on Energy and Resources (SCER). In accordance with legislative requirements the CAP's annual report is provided as an appendix to this report.

The AEMC provides back office functions for CAP including financial, contracting and human resources, in accordance with the Act on a cost recovery basis.

# Rules and reviews 2011–12

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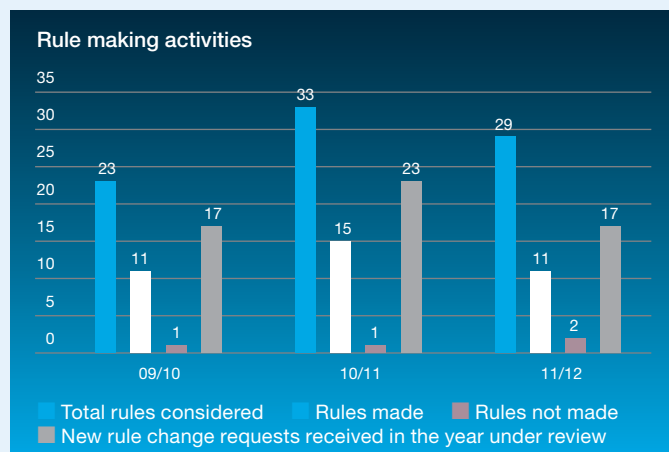


# Australia's energy market is currently faced with a number of challenges that require careful management in order to ensure that Australian consumers continue to be provided with reliable and secure supplies of electricity and gas at efficient prices.

The current transformation of Australia's stationary energy sector continues to require the careful and synchronised development of both high level, economy wide policy and focused, market specific frameworks.

The AEMC's rule making and reviews are focussed on the principle of cause and effect in policy design; and based on our understanding of the various interactions of policies and an appreciation of their long term effects. This is not an easy process but it is essential when developing options for major reforms as we have done again this year. Effective policy implementation through market design also requires an appreciation of the way in which markets operate. A fundamental of effective markets is that both firms and consumers are provided with a clear set of rules and options and then allowed to make their own choices as efficiently as possible.

## Rules



During the year under review, we considered a total of 29 rule change requests bearing on the National Electricity Market and natural gas markets.

- 8 rules were made by the AEMC amending the National Electricity Rules.
- 3 rules were made by the AEMC amending the National Gas Rules.

- 2 determinations not to make an electricity rule in response to a rule change request.
- 13 electricity rule change requests considered during the year were still current at 30 June 2012.
- 3 gas rule change requests considered during the year were still current at 30 June 2012.

### Decisions to not 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 relation to which the AEMC may not make a rule. This year there were no decisions not to proceed with a rule change request.

### Time taken to make rule determinations

The timeframe within which the rule change process is undertaken for rule change requests is dictated by statutory timeframe obligations under national electricity laws including the National Electricity Law (NEL), National Gas Law (NGL) and, from 1 July 2012, the National Energy Retail Law (NERL). 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 commencing the rule change process after an initial period of analysis. We must commence "as soon as practicable" after receipt of requests. If requests raise issues of complexity or if there is a material change of circumstances we may extend timeframes for making draft or final determinations.

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; the expedited rule making process; and the fast track rule making process. The Commission may expedite the rule making process if the request is for a non-controversial rule or an urgent rule as those terms are defined in the national energy laws. The Commission may fast track the rule making process where there has been adequate previous consultation by a market regulatory body or if the rule change request arises from an AEMC review.

The AEMC may extend the rule making process where complicated issues arise and an extension is required to enable the proper consideration of issues and implications for stakeholders.

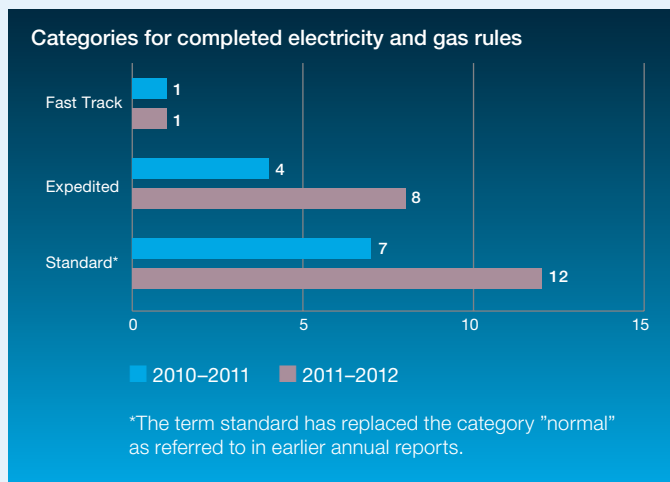
The AEMC assesses each rule change proposal on receipt and when it is considered complex or difficult the standard statutory timeframe may be extended at the beginning of the process to allow appropriate consultation and evaluation. In accordance with the law a notice in relation to extensions is published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

We generally publish an issues paper with the initial publication of a rule change request in order to allow the request 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.

The number of written submissions from the public made in relation to rule change requests during the year under review totalled 313. Of that number 76 submissions were made in relation to rule change requests completed during the year; and 237 were lodged in relation to rule change requests continuing into 2012–2013. Of the rule change requests carried forward into next year, 102 submissions were recorded by a single rule change request – the economic regulation of network service providers.

The significant increase in written submissions received during the year under review indicates increased community interest in our work program and also points to the increasing complexity of our task. Each submission is carefully considered and evaluated during the rule making process. Most submissions are lengthy and complex.

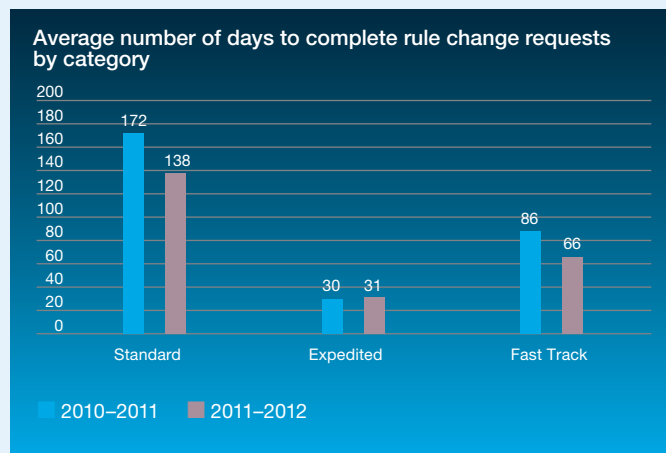
In the year under review the rule change process for four rule change requests was expedited, one was fast tracked and 24 were considered under the standard process.



It took 31 days on average to complete each expedited rule, 66 days to complete the single fast track rule and 138 days on average to complete each rule change proposal in the standard category (not taking into account a rule change request which was postponed pending the completion of an associated review and then not made – *Total factor productivity for distribution network regulation.*)

Two of the 11 rules made in the year under review were extended. These were the *Negative Intra-regional settlements residue* and, *Application and operation of administered price periods.*

The AEMC's efforts to reduce the time spent on consideration of rule change requests has seen good progress with increased performance in this area.



### National Energy Retail Rules

Immediately after the close of the year under review, on 1 July 2012, the AEMC took the next step in our expanding role – responsibility for the National Energy Retail Rules.

The National Energy Retail Law was passed by the South Australian parliament (as lead legislature) on 9 March 2011. The extent to which the National Energy Retail Law applies in each state and territory depends on the application legislation passed by each jurisdiction. The National Energy Retail Law and the National Energy Retail Rules commenced in the Australian Capital Territory, Tasmanian and Commonwealth jurisdictions on 1 July 2012.

The National Energy Customer Framework is one of the Council of Australian Government's energy market reforms. It aims to implement 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 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 ready to 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 2011–2012

Electricity Rule Made	Consolidation	Date Made	Commenced	Proponent	Category	Benefit / Impact
<b>Application and Operation of Administered Price Periods</b>	Rule 2011 No. 9 (version 46)	10-Nov-11	10-Nov-11 (Schedules 1 and 3 commenced on 10 November 2011.  Schedule 2 commenced on 2 July 2012).	AEMO	Standard	This rule clarifies the operation of administered pricing in the National Electricity Market. It removes ambiguity in relation to the application of administered pricing to ancillary services prices, and potential for administered pricing to be applied ahead of time. These changes, as well as a number of other minor related amendments, improve the clarity of the rules.
<b>Efficiency Benefit Sharing Scheme and Demand Management Expenditure by Transmission Businesses</b>	Rule 2011 No. 10 (version 47)	22-Dec-11	22-Dec-11	MCE	Standard	This rule strengthens the scope and certainty for transmission operators to pursue demand management options and find an efficient balance between the need for additional network investment and the value of demand as an alternative way to deliver reliable supply.
<b>Inclusion of Embedded Generation Research Into Demand Management Incentive Scheme</b>	Rule 2011 No. 11 (version 47)	22-Dec-11	22-Dec-11	MCE	Standard	This rule is a practical and effective way of encouraging distribution network service providers to consider more innovative and cost effective ways of connecting embedded generators to distribution networks.
<b>Network Support Payments and Avoided TUOS for Embedded Generators</b>	Rule 2011 No. 12 (version 47)	22-Dec-11	22-Dec-11	MCE	Standard	This rule promotes payments to embedded generators that efficiently reflect the extent to which their services defer investment in the transmission network.
<b>Tasmania Tranche 5A Procedure Changes</b>	Rule 2011 No. 8 (version 45)	14-Jul-11	14-Jul-11	Tasmanian Government	Expedited (non-controversial)	This rule facilitates the Tasmanian Government's extension of retail contestability to customers in Tasmania consuming between 50 and 150MWh per annum.
<b>Expiry of the Reliability and Emergency Reserve Trader</b>	Rule 2012 No. 1 (version 48)	15-Mar-12	15-Mar-12 and 1-Jul-16 (Schedule 1 commenced on 15 March 2012. Schedules 2 and 3 will commence on 1 July 2016.)	Reliability Panel	Standard	The Reliability and Emergency Reserve Trader (RERT) is a safety net mechanism that allows AEMO to procure additional reserves in emergency situations where ordinary market mechanisms are unlikely to deliver an adequate supply of electricity to meet customer demand. This rule postponed the RERT's expiry for four years to 30 June 2013.

Electricity Rule Made	Consolidation	Date Made	Commenced	Proponent	Category	Benefit / Impact
<b>Negative Intra-regional Settlements Residue</b>	Rule 2012 No. 2 (version 49)	22-Mar-12	5 April 12	AEMO	Expedited (non-controversial)	Under certain market conditions, transmission network service providers are required to make payments to the market operator, AEMO. This rule change related to the timing of one of these payment types – negative intra-regional settlements residue payments. The rule made enables AEMO to determine the timing of these payments. This is to help AEMO better manage the risk of short payments from transmission businesses and also reduce the risk of short payments from AEMO to market participants. It ensures a consistent payment procedure for both types of settlements residue, to help simplify the settlements process.
<b>Minor Changes</b>	Rule 2012 No. 3 (version 51)	14-Jun-12	Schedule 1 commenced on 26 July 2012. Schedule 2 commences on 1 July 2016	AEMC	Expedited (non-controversial)	This rule corrects minor errors and makes non-material changes to the National Electricity Rules.

## Gas rules made by the AEMC in 2011–2012

Gas Rule Made	Consolidation	Date Made	Commenced	Proponent	Category	Benefit / Impact
<b>Various Hedging Instruments In The Declared Wholesale Gas Market</b>	Rule 2011 No. 4 (version 10)	25-Aug-11	17-Apr-12	AEMO	Standard	This rule enhances the efficient operation of the Victorian Declared Wholesale Gas Market by improving the management of financial risks related to the buying and selling of wholesale natural gas.
<b>STTM Brisbane Hub</b>	Rule 2011 No. 5 (version 11)	15-Sep-11	15-Sep-11	AEMO	Fast track AEMO adequately consulted with the public on nature and content of rule change request.	This rule enhances the efficient operation of the short term trading market at the Brisbane hub by improving some implementation costs associated with establishing the hub.
<b>Short Term Trading Market – Market Schedule Variation</b>	Rule 2011 No. 6 (version 12)	13-Oct-11	13-Oct-11	AEMO	Expedited (non-controversial)	This rule facilitates the transition of an operational timing provision from the National Gas Rules to the Short Term Trading Market (STTM) Procedures. It allows AEMO to make market adjustments in a timely and efficient manner.



### Determinations to not make an electricity rule change request

There were two decisions taken by the AEMC during the year to not make an electricity rule as requested by proponents.

Name	Date	Proponent
<b>Total Factor Productivity For Distribution Network Regulation</b>	22-Dec-11	Minister for Energy and Resources (Victoria)
<b>Definition Of Temporary Over-Voltage Limits</b>	19-Jan-12	Hydro Tasmania

### Electricity rules under consideration at 30 June 2012

Thirteen electricity rule change proposals remained under consideration at the close of the 2011–2012 year.

Twelve of the 13 electricity rule change proposals under consideration at 30 June 2012 were received during 2011–2012.

One rule change proposal was carried forward from 2010–2011:

- *Inter-regional Transmission Charging.*

Electricity Rule Change Proposals Under Consideration At 30 June 2012				
Electricity Rule Change Request	Proponent	Initiated	Category	Status At 30 June 2012
<b>Distribution Network Planning And Expansion Framework</b>	MCE	29-Sep-11	Standard	<p>Consultation on draft determination</p> <p>This request seeks to establish a national framework for distribution network planning and expansion, including new demand side obligations on distribution businesses, within the National Electricity Rules. This will support these businesses and other market participants in making efficient investment decisions which will in turn facilitate the efficient development of distribution networks in the long term interests of consumers.</p>
<b>New Prudential Standard And Framework In The National Electricity Market</b>	AEMO	20-Oct-11	Standard	<p>Consultation on draft determination</p> <p>This request seeks to amend the NEM's prudential framework, by introducing a new statistical standard that will be used to calculate collateral requirements for participants.</p>
<b>Cost Pass Through Arrangements For Network Service Providers</b>	Grid Australia	2-Feb-12	Standard	<p>Consultation on draft determination</p> <p>Grid Australia submitted that under the National Electricity Rules, transmission and distribution businesses were exposed to the risk of significant costs arising from natural disasters and insurance liability limits outside of their reasonable control. This request seeks to address those risks.</p>
<b>Potential Generator Market Power in the National Electricity Market</b>	Major Energy Users Inc.	14-Apr-11	Standard	<p>Consultation on draft determination</p> <p>This request seeks to constrain the ability of generators in the National Electricity Market to exercise market power. The proposed rule would, above a threshold demand level, force all 'dominant generators' to bid all of their available capacity at a maximum price of \$300/MWh.</p>
<b>Assumed Utilisation Of Imputation Credits</b>	SP Ausnet and Electranet	22-Mar-12	Standard	<p>Consultation on request for rule change</p> <p>On 18 November 2011, SP AusNet submitted the varying cost of corporate income tax rule change request. Similarly, on 30 November 2011, ElectraNet submitted the assumed utilisation of imputation credits rule change request. As, both rule change requests concern the value of gamma (Y) that is applied to the coming revenue determinations for SP AusNet and ElectraNet, the Commission consolidated these rule change requests and is treating them as one request. The draft rule determination proposed not to make a rule in response to the consolidated rule change request.</p>
<b>Connecting Embedded Generators</b>	ClimateWorks, Seed, Property Council	14-Jun-12	Standard	<p>Consultation on request for rule change</p> <p>This request seeks to amend the process for connecting embedded generators to distribution networks. It would require distributors to publish additional information to facilitate connections as well as commit to more specific timeframes. It also proposes to introduce technical standards for embedded generating units and exclude embedded generators from paying shared network augmentation costs.</p>
<b>Economic Regulation of Network Services</b>	AER	3-Nov-11	Standard	<p>Initial assessment under s. 94 of the NEL.</p>
<b>Calculation Of Return On Debt For Electricity Network Businesses</b>	Energy Users Rule Change Committee	3-Nov-11	Standard	<p>These two rule change requests were consolidated for consideration along with a gas rule change request (<i>Price and revenue regulation of gas services</i>). Taken together these requests have been considered as Economic regulation of network service providers and the price and revenue regulation of gas services. The request asks the AEMC to develop methods and processes to achieve efficient outcomes in setting revenues and prices for consumers in a number of areas, including how the rate of return is set for network businesses.</p>

Electricity Rule Change Proposals Under Consideration At 30 June 2012				
Electricity Rule Change Request	Proponent	Initiated	Category	Status At 30 June 2012
<b>Optimisation Of Regulatory Asset Base And Use Of Fully Depreciated Assets - Electricity</b>	Major Energy Users Inc.	1-Dec-11	Standard	<p>Preparation of draft determination.</p> <p>This request seeks to introduce optimisation of the regulatory asset base and also disincentivise the replacement of assets which are still in operation and useful. The proposal would require the regulator to periodically review the existing asset base to ensure that assets are only included in the asset base to the extent they are utilised. In addition, the proposed rules would oblige the regulator to reject an allowance for the replacement of an asset that can be used productively for further service, even if it is at the end of its economic life.</p>
<b>Negative Offers From Scheduled Network Service Providers</b>	IPRA and LYMMCo	29-Mar-12	Standard	<p>Preparation of draft determination.</p> <p>This request seeks to impose a restriction on scheduled network service providers bidding below the market floor price that is applied to generators. Currently there is only one scheduled network service provider in the NEM which is Basslink. This rule change raises complex issues related to the role of scheduled or merchant network service providers in the NEM and is currently subject to close analysis.</p>
<b>Small Generation Aggregator Framework</b>	AEMO	15-Mar-12	Standard	<p>Preparation of draft determination.</p> <p>This request seeks to encourage small generators to participate in the National Electricity Market by reducing the entry barriers they face. The proposal is to create a new category of Market Participant that will be financially responsible for multiple small generators.</p>
<b>Distribution Losses in Expenditure Forecasts</b>	The Copper Development Centre	12-Apr-12	Standard	<p>Preparation of draft determination.</p> <p>This request seeks to ensure that the cost of distribution losses is considered by distribution businesses when making investment decisions.</p>
<b>Inter-regional Transmission Charging</b>	MCE	13-May-10	Standard	<p>Continuing second draft determination. This request seeks to develop a uniform national inter-regional transmission charge and methodology to more efficiently allocate the costs of transmission assets that provide interregional transfers of energy to consumers.</p>

Gas Rules Under Consideration At 30 June 2012				
Gas Rule Change Request	Proponent	Initiated	Category	Stage At 30 June 2012
<b>Price And Revenue Regulation Of Gas Services (see Economic Regulation Of Network Service Providers)</b>	AER	20-Oct-11	Standard	Initial assessment under s. 301 of the NGL.  This request was consolidated with two proposals for change to the electricity rules. Together these requests have been considered as Economic regulation of network service providers and the price and revenue regulation of gas services. The request asks the AEMC to develop methods and processes to achieve efficient outcomes in setting revenues and prices for consumers in a number of areas, including how the rate of return is set for network businesses.
<b>Optimisation Of Regulatory Asset Base And Use Of Fully Depreciated Assets – Gas</b>	Major Energy Users Inc.	1-Dec-11	Standard	Consultation on draft determination.  This request seeks to introduce optimisation of the capital base and also reduce incentives for the replacement of assets which are still in operation and useful. The proposal would require the regulator to periodically review the existing capital base to ensure that assets are only included in the capital base to the extent they are utilised. In addition, the proposed rules would oblige the regulator to reject an allowance for the replacement of an asset that can be used productively for further service, even if it is at the end of its economic life.
<b>Reference Service And Rebateable Service Definitions.</b>	AER	6-Oct-11	Standard	Preparation of final determination.  This rule change request seeks to amend the definitions of reference service and rebateable service in the National Gas Rules. The intention of the proposed amendments is to allow more flexibility for the regulatory treatment of pipeline services in order to better ensure that prices for regulated services are efficient and cost reflective.

### Formal market reviews

The AEMC conducts reviews in accordance with terms of reference provided by the nation's energy ministers<sup>1</sup> – or through the initiation of its own reviews as part of its market development role.

During 2011–2012, the AEMC, together with its independent Reliability Panel, undertook 14 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 14 market reviews undertaken by the AEMC, seven were completed this year and seven continued into 2012–2013. Four market reviews were undertaken by the AEMC's Reliability Panel this year and three of those were completed during the reporting period. The MCE/SCER requested that we undertake six formal market reviews in addition to separate requests for advice throughout the year. These 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 formal market reviews the energy ministers seek our involvement in broader market issues, such as the impact of emerging supply chain costs on electricity retail prices.

During the year under review we worked on preparation of the following advice:

- National Electricity Market – financial market resilience (continuing);
- Possible future retail electricity price movements 1 July 2011 to 30 June 2014 (completed);
- Possible future retail electricity price movements 1 July 2012 to 30 June 2015 (continuing);
- Strategic Priorities for Energy Market Development 2012 (continuing);
- Strategic Priorities for Energy Market Development 2011 (completed).

<sup>1</sup>In 2011 the Council of Australian Governments announced that it would replace the former Ministerial Council on Energy (MCE) with the new Standing Council on Energy and Resources (SCER). However, the MCE will for some time remain as the legally enduring entity which comprises the federal, state and territory ministers for energy. For this reason the MCE continues to be referenced as the entity with power to request work of the AEMC.



Market reviews undertaken in 2011–2012 at a glance				
AEMC	Proponent	Start Date	End date	Status at 30 June 2011
<b>Transmission Frameworks Review</b>	MCE	20 April 2010	Continuing	Preparation of second interim report
<b>Power Of Choice – Giving Consumers Options In The Way They Use Electricity.</b>	MCE	29 March 2011	Continuing	Preparation of draft report
<b>Review Into The Use Of Total Factor Productivity For The Determination Of Prices And Revenues</b>	MCE	21 November 2008	7 July 2011	Completed
<b>Review Of Arrangements For Compensation Following An Administered Price, Market Price Cap or Market Floor Price.</b>	AEMC	26 May 2011	Continuing	Preparation of draft report
<b>Energy Market Arrangements For Electric And Natural Gas Vehicles</b>	MCE	5 September 2011	Continuing	Preparation of draft report
<b>Review of Distribution Reliability Outcomes And Standards – NSW Workstream</b>	SCER/MCE	3 November 2011	Continuing	Consultation on draft report
<b>Review Of Distribution Reliability Outcomes And Standards – National Workstream</b>	SCER/MCE	28 June 2012	Continuing	Consultation on issues paper
<b>Last Resort planning power – 2011 Review</b>	Rules requirement	June 2011	3 November 2011	Completed
<b>Indexation of MPC and CPT (published under electricity guidelines and standards)</b>	Rules requirement	7 February 2012	21 February 2012	Completed
<b>Impact Of The Enhanced Renewable Energy Target On Energy Markets</b>	MCE	16 September 2010	9 December 2011	Completed
<b>Reliability Panel</b>				
<b>Review Of The Guidelines For Identifying Renewable Operating Incidents</b>	AEMC	8 May 2012	Continuing	Preparation of draft report
<b>System Restart Standard</b>	Rules requirement	20 September 2011	12 April 2012	Completed
<b>Annual Market Performance Review 2011</b>	Rules requirement	1 September 2011	1 March 2012	Completed
<b>Review Of Template For Generator Compliance Program</b>	Rules requirement	21 December 2011	27 June 2012	Completed

Market reviews completed in 2011–2012			
Review name	Why was the review conducted?	Overview	Description
<b>Review Into The Use Of Total Factor Productivity For The Determination Of Prices And Revenues</b>	In November 2008 the AEMC initiated this review following a rule change request from the Victorian Minister for Energy and Resources which sought to implement a total factor productivity methodology in the National Electricity Rules. The current application of what is called a “building blocks” approach to network regulation relies on the collection of information which is specific to each network business. Under a total factor productivity (TFP) approach the productivity growth rate for a group of businesses is used to determine the rate of change of regulated revenue or prices for all network businesses. In this way TFP-based regulation could expose the monopoly businesses to pressures similar to competitive market conditions.	The AEMC found that using TFP-based regulatory methods, either to support the current building blocks approach or as an alternative regulatory approach would create a number of efficiency benefits: stronger performance incentives for regulated network benefits; improved demand management through encouragement of better asset utilisation; and the possibility of lower regulatory costs (including litigation costs).	This review found that conditions required for effective implementation of TFP methodology did not exist at this time. It concluded that consistent and robust data on network business inputs and outputs was needed before TFP-based regulation could be implemented. Once collated the council of energy ministers would need to assess if the conditions required for introducing a TFP-based methodology are met. The ministers would also need to consider the merits of offering it as an alternative to the building blocks approach at that time. The AEMC has proposed rules which would facilitate data collection and the assessment of whether the necessary conditions for introducing TFP could be met. These rules are being considered by the energy ministers.
<b>Last Resort Planning Power – 2011 Review</b>	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 Last Resort Planning Power. This review informed that reporting for 2011.	The Last Resort Planning Power 2011 review examined whether Transmission Network Service Provider planning had responded to inter-regional network congestion as identified in national planning documents.	The 2011 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 2011.
<b>Annual Market Performance Review 2011</b>	Under the National Electricity Rules, the Reliability Panel is required to conduct an annual review of the NEM.	The Panel’s annual review of the performance of the NEM examines performance in terms of reliability of the power system, the power system security and reliability standards, and other relevant standards and guidelines under the NER. The Panel takes into account a number of factors in carrying out its review including examining system incident reports that are published by AEMO on power system events that have occurred in the NEM. The Panel’s report also includes information provided by network service providers and jurisdictional bodies.	The latest review by the Panel considered the performance of the NEM in the 2010–2011 financial year. The Panel noted that there were no ‘unserved energy’ (USE) due to reliability events during the financial year and the USE continued to remain within the reliability standard.
<b>System Restart Standard</b>	Under the National Electricity Rules, the Reliability Panel is required to establish the system restart standard. This review was to determine a system restart standard.	The system restart standard is to be used by the Australian Energy Market Operator (AEMO) in procuring system restart ancillary services (SRAS). SRAS are ancillary services that provide energy to allow power stations to be restarted and connections to be re-established following a major supply interruption where power stations are disconnected from the power system. In undertaking this review the Panel considered advice from AEMO as well as the interim system restart standard that had been published by AEMO in 2006.	The Panel made the system restart standard in April 2012 following consultation with stakeholders throughout the review process. The system restart standard will apply from 1 August 2013.

Market reviews completed in 2011–2012

Review name	Why was the review conducted?	Overview	Description
<p><b>Impact Of The Enhanced Renewable Energy Target On Energy Markets</b></p>	<p>The objective of this review was to provide advice to the Ministerial Council on Energy on the impact of the enhanced Renewable Energy Target on the:</p> <ul style="list-style-type: none"> <li>– price of electricity for retail customers;</li> <li>– level of emissions; and</li> <li>– security and reliability of the electricity supply.</li> </ul> <p>We anticipate that this advice could be used to feed into considerations by the Commonwealth Government during its scheduled review of the enhanced Renewable Energy Target in 2012 and into the development of State and Territory feed in tariff schemes.</p>	<p>During this review we modelled the impact of both components of the enhanced Renewable Energy Target, the Large Scale Renewable Energy Target and the Small Scale Renewable Energy Scheme. We modelled impacts out to 2020 over three main scenarios:</p> <ul style="list-style-type: none"> <li>– A reference case scenario, which modelled the impact of the enhanced Renewable Energy Target without a carbon emissions price.</li> <li>– A carbon emissions price scenario, which modelled the impact of the enhanced Renewable Energy Target with the introduction of a carbon price in July 2012.</li> <li>– A counterfactual scenario, which modelled a scenario which assumes there is no Renewable Energy Target or price on carbon emissions.</li> </ul> <p>We also modelled two additional sensitivities which included:</p> <ul style="list-style-type: none"> <li>– The impact of a lower level of demand, in light of recent lower consumption; and</li> <li>– The impact of allowing new coal plant to be installed in Western Australia, in light of the relatively high domestic gas prices in this state.</li> </ul>	<p>The key conclusions from this review include:</p> <ul style="list-style-type: none"> <li>– Under a carbon emissions price, the Large Scale Renewable Energy Target is forecast to be just met by 2020.</li> <li>– However, without a carbon emissions price in place, the Large Scale Renewable Energy Target is expected to fall short of its 2020 target by between 35% and 50%, depending on the level of demand assumed.</li> <li>– The enhanced Renewable Energy Target is projected to cost \$1.5bn in 2019/20 in \$2010/11. Costs of compliance under a carbon emissions price are likely to be lower than if a carbon emissions price was not in place.</li> <li>– The uncapped nature of the Small Scale Renewable Energy Scheme means it is very difficult to forecast its impact and costs. This has led to policy changes, price volatility for consumers, and undermined achievement of the Large Scale Renewable Energy Target</li> <li>– A common framework for jurisdictional feed in tariffs could assist in the management of uptake and costs under the Small Scale Renewable Energy Scheme.</li> </ul>
<p><b>Indexation of MPC and CPT (published under electricity guidelines and standards).</b></p>	<p>Under the National Electricity Rules, the AEMC is required to index the market price cap (MPC) and the cumulative price threshold (CPT) each year. To meet this requirement, this review was conducted to calculate the indexed values to apply for the 2012–2013 financial year.</p>	<p>In August 2012 the Reliability Panel completed a review of the Reliability Standard and Settings. The Panel recommended that the MPC and CPT be subject to yearly indexation and submitted a rule change to the AEMC on this matter. The AEMC made the Rule in June 2011 to introduce a mechanism to index the MPC and CPT using the consumer price index (CPI). In February 2012, the indexation was carried out for the first time.</p>	<p>This review was required to meet a National Electricity Rules requirement. As published on the AEMC website on 21 February 2012, the MPC was adjusted from \$12,500 /MWh to \$12,900/MWh and the CPT was adjusted from \$187,500 to \$193,900 to apply for the 2012–2013 financial year.</p>

## Market reviews completed in 2011–2012

Review name	Why was the review conducted?	Overview	Description
<b>Review Of Template For Generator Compliance Programs</b>	<p>The Reliability Panel developed a guidance document in 2009 to be used by generators and the Australian Energy Regulator. This document is known as the template for generator compliance programs. Under the rules, generators are required to implement compliance programs to demonstrate their ongoing ability to meet relevant technical standards. Technical standards promote the safe and secure operation of the power system and compliance with the standards is enforced by the regulator. The Reliability Panel developed the template to assist generators in meeting their compliance obligations by defining an appropriate compliance framework. The Panel is required to review the template every three years. This ensures the template remains current by reflecting any relevant changes in the technical standards and changes in technology. The review also enables the Panel to consider ways to improve the template based on the experience of stakeholders.</p>	<p>This is the first review of the template since the Reliability Panel introduced the template in 2009. The Panel received terms of reference from the AEMC in November 2011 asking that it complete the review by 31 July 2012. The Panel's review involved considering the rationale for the template's development in 2009 and whether the template was achieving its intended purpose. It also involved a thorough audit of a table within the template that sets out suggested testing methodologies for various technical standards, with references to specific provisions in the rules. The Panel's final decision was informed by stakeholder submissions on an issues paper and draft report, as well as through a public meeting held in June 2012. Stakeholders helped identify potential amendments based on their experiences with the template and with compliance requirements, many of which the Panel adopted in the final template.</p>	<p>This year, the Reliability Panel finalised its first review of the template for generator compliance programs. The Panel published its final report and the revised template on 27 June 2012. The review found that the template was working well in its current format and the Panel decided not to make any major changes to the template at this point in time. Some minor amendments were made to the template based on stakeholder feedback. These amendments helped to improve the template's ease of use, clarify the template's purpose and clarify specific provisions within the template.</p>
<b>Energy Market Arrangements for Electric and Natural Gas Vehicles</b>	<p>Electric (EV) and natural gas vehicles (NGV) are envisaged to play a significant role in Australia's transport mix in the future. The MCE (now SCER) asked us to review the energy market arrangements to ensure that they facilitate the efficient uptake of EVs and NGVs. We are required to assess the high-level benefits and costs that such technologies bring to bear on our energy markets. We must advise on the implications that these technologies may have on the energy market arrangements relating to our national electricity and natural gas markets, including Western Australia.</p>	<p>To facilitate the economically efficient uptake of electric and natural gas vehicles, we are assessing and proposing changes to the energy market arrangements with the objective of enhancing consumer choice, fostering competition, and apportioning costs appropriately. We consider EVs as another form of DSP and while certain issues with the energy markets were triggered by EVs, our broader recommendations are designed to be technologically neutral and apply broadly to all forms of DSP. This is why this review is being conducted in parallel with our Power of Choice review.</p>	<p>To facilitate the efficient uptake of EVs, we consider that this is best achieved through pricing signals that reflect the underlying cost of supplying electricity. We also consider that an EV is but one example of a large load and that all such loads should be amenable to demand side participation. We have proposed new metering arrangements to facilitate consumer choice and enable efficient EV charging behaviour. We found no changes need to be made to cater for the efficient uptake of NGVs.</p>

Market reviews completed in 2011–2012			
Review name	Why was the review conducted?	Overview	Description
<b>Transmission Frameworks Review</b>	<p>Transmission networks form the backbone of the national electricity grid. They 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. Policies such as the expanded Renewable Energy Target and the price on carbon are expected to drive new investment in renewable and low carbon generation. 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. The role of this review is not to try and define that future but to develop the best framework to underpin whatever transformation eventuates. We are reviewing the role of the transmission sector in providing services to the competitive parts of the electricity market. We have taken a holistic approach to considering generators' access requirements, transmission planning and connection arrangements. 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>The First Interim Report was published in November 2011. That report set out a number of possible options for reforming transmission arrangements, in particular five alternative pathways to providing generators with access to the transmission network. It also included possible approaches for enhancing the planning and connection arrangements. Following stakeholder consultation, including a public forum in December 2011, we began narrowing the options and working towards publishing preliminary proposals in a Second Interim Report in August 2012.</p>
<b>Power Of Choice – Giving Consumers Options In The Way They Use Electricity</b>	<p>The pattern of electricity demand in the National Electricity Market is changing. Since 2005 peak demand in the NEM has grown by 3.5% a year and is forecast by the Australian Energy Market Operator (AEMO) to grow by a further 2.6% a year through to 2020. This compares to growth of 1.2% a year in energy demand since 2005, and forecast energy demand growth of 2.1% a year to 2020. During the year under review AEMO published data indicating falls in demand. But the gap between peak and average demand remains an issue. This gap puts pressure on the power system's ability to meet demand unless there is significant investment in more generation and expanded network capacity which costs 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>This review is exploring what changes can be made to help families, business and industry make informed choices about the way they use electricity and manage their bills. 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>Extensive public consultation was conducted by the Power of choice review throughout the year and work on a draft report for community consultation was underway at 30 June 2012. A directions paper was published on 23 March 2012. It considered the role for consumer participation in each segment of the electricity market and reviewed the role played by each part of the supply chain in facilitating uptake of demand side participation when it is efficient to do so.</p>
<b>Review Of Arrangements For Compensation Following An Administered Price Cap, Or Market Floor Price.</b>	<p>This review is considering the operation and effectiveness of the current compensation arrangements set out under clauses 3. 14. 6 and 3. 15. 10 of the Rules. 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 initiated 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. Its objectives are to remove ambiguities to improve the effectiveness and consistency of arrangements in the rules for determining and paying compensation (under clauses 3. 14. 6 and 3. 15. 10).</p>	<p>Preliminary analysis through this review has indicated that there is a case for clarifying the basis for calculating eligibility for compensation following one of the defined market events. Further work and consultation on proposed refinements will occur in the second half of 2012.</p>



Market reviews completed in 2011–2012			
Review name	Why was the review conducted?	Overview	Description
<b>Review Of Distribution Reliability Outcomes And Standards – NSW Workstream</b>	<p>The AEMC was requested by the Ministerial Council on Energy to undertake this review in August 2011. The review has two workstreams – a NSW workstream and a national workstream.</p> <p>The objective of the NSW workstream is to provide advice on the costs and benefits of alternatives for the future level of distribution reliability in NSW. The AEMC’s advice will be used by the NSW Government to decide if any changes to the level of distribution reliability in NSW should be made.</p> <p>Any changes to the level of distribution reliability in NSW would commence from 1 July 2014, at the beginning of the next regulatory control period for the NSW electricity distribution businesses.</p>	<p>We have developed four scenarios for the future level of reliability that could be provided by electricity distribution networks in NSW. This includes three scenarios with lower reliability outcomes and one scenario with higher reliability outcomes, compared to current requirements. The costs and benefits of each scenario are being considered over a fifteen year timeframe from 2014/15 to 2028/29.</p> <p>Our analysis of each scenario has been based on:</p> <ul style="list-style-type: none"> <li>– a survey of 1,288 NSW electricity customers to understand the value placed on a reliable electricity supply by different customer types; and</li> <li>– modelling undertaken by each of the NSW electricity distribution businesses on the likely impact of each scenario on their investment and reliability performance.</li> </ul>	<p>The AEMC published its draft report on the NSW workstream of the review for public consultation on 8 June 2012. The draft report suggested:</p> <ul style="list-style-type: none"> <li>– There are benefits to consumers from reducing the level of distribution reliability in NSW.</li> <li>– The three scenarios for lower distribution reliability outcomes indicated that the cost savings from reducing reliability levels are larger than the costs to customers of poorer reliability performance.</li> <li>– Over 2014/15 to 2028/29, the three scenarios for lower reliability outcomes would provide reductions in distribution investment ranging from \$231m to \$1.1bn in today’s dollars. The impact on outages would range from two to fifteen minutes more outages a year, compared to the continuation of current requirements.</li> <li>– However, the reduction in customer bills is likely to be relatively modest as investment to maintain current reliability requirements forms just one of the drivers of overall electricity bills.</li> </ul> <p>The AEMC’s final report on the New South Wales workstream will be published at the end of August 2012.</p>
<b>Review Of Distribution Reliability Outcomes And Standards – National Workstream</b>	<p>The AEMC was requested by the Ministerial Council on Energy to undertake this review in August 2011. The review has two workstreams – a NSW workstream and a national workstream.</p> <p>The national workstream addresses the SCER’s request to consider if there is merit in developing a nationally consistent framework for expressing, delivering, and reporting on distribution reliability outcomes.</p> <p>After considering the AEMC’s advice as to the merits of moving to a nationally consistent framework, the SCER may request that the AEMC develop a best practice framework that delivers nationally consistent reliability outcomes that could be voluntarily adopted by jurisdictions or used as a reference to amend aspects of existing jurisdictional approaches.</p>	<p>The AEMC previously noted in its Review of National Framework for Electricity Distribution Network Planning and Expansion that there is a lack of consistency and transparency in how distribution reliability outcomes are determined. Distribution reliability outcomes are currently set separately for each NEM jurisdiction by jurisdictional regulators, relevant government bodies or individual Distribution Network Service Providers (DNSP).</p> <p>While there are considerable similarities in which aspects of reliability are regulated across NEM jurisdictions, there are considerable differences in how each jurisdiction currently regulates these matters. This review will consider whether a nationally consistent framework that promoted greater consistency in these matters would promote the national electricity objective.</p>	<p>On 28 June 2012, the AEMC commenced the national workstream with the publication of an issues paper.</p> <p>The issues paper sets out the proposed scope and approach for the national workstream for comment. It also provides a detailed description of the current approaches to distribution reliability regulation in each NEM jurisdiction and discusses the key differences between those approaches.</p>

## Market reviews completed in 2011–2012

Review name	Why was the review conducted?	Overview	Description
<b>Review Of Guidelines For Identifying Renewable Operating Incidents</b>	<p>The market operator, AEMO, is responsible for ensuring the national power system is operated in a safe, secure and reliable manner. As part of this role, AEMO conducts reviews of operating incidents that may impact power system security. AEMO investigates the causes and consequences of power system incidents and publicly reports its findings, which can help to reduce or prevent incident recurrence. The Reliability Panel developed guidelines in 2006 to assist AEMO in performing this function by clarifying what kind of incidents AEMO should review. The Panel is reviewing its guidelines to determine if amendments are required since their introduction in 2006. The AEMC issued terms of reference to the Panel to conduct the review following a request from AEMO to amend the guidelines.</p>	<p>The Reliability Panel is reviewing its guidelines to determine whether the current range of reviewable operating incidents is appropriate and whether the guidelines can be improved more generally. Reviewable operating incidents are unusual power system events that have the potential to affect the secure operation of the power system. Currently the guidelines include a range of incidents that vary in terms of their causes, location and system impacts. The review will consider if amendments are required to address any developments in the market and whether there are net benefits in changing the nature and scope of AEMO's incident reviews. This includes considering a proposal by AEMO to narrow the scope of incidents reviewed by AEMO to help reduce the costs of the current reporting arrangements. The Panel's assessment of the costs and benefits of any changes to the guidelines is being informed through stakeholder consultation on an issues paper, published in May this year, and a draft report to be published later in 2012.</p>	<p>Stakeholders have identified a number of costs and benefits associated with AEMO's existing review arrangements in three submissions to the Panel's issues paper. The submissions recognise the costs of incident reviews for AEMO and industry, which AEMO is seeking to reduce through its proposed guideline amendments. However, the Private Generators Group and Origin Energy highlighted some key benefits of AEMO's reporting that may be eroded if AEMO's amendments were to be adopted.</p> <p>Grid Australia was largely supportive of the guideline amendments proposed by AEMO, noting the changes would result in a reduced effort for AEMO and TNSPs, whilst not reducing the quality of service to affected customers.</p> <p>The Panel is considering the issues raised in submissions and is assessing the costs and benefits of alternative review options, including two reporting options suggested by the Private Generators Group and Origin Energy.</p>

Australian Energy Market Commission  
ABN 49 236 270 144

Annual financial statements  
for the year ended  
30 June 2012

# Financial statements

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## INDEPENDENT AUDITOR'S REPORT



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### To the Chairperson Australian Energy Market Commission

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 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 2012. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2012
- a Statement of Financial Position as at 30 June 2012
- a Statement of Changes in Equity for the year ended 30 June 2012
- a Statement of Cash Flows for the year ended 30 June 2012
- a Statement of Administered Comprehensive Income for the year ended 30 June 2012
- a Statement of Administered Financial Position as at 30 June 2012
- a Statement of Administered Changes in Equity for the year ended 30 June 2012
- a Statement of Administered Cash Flows for the year ended 30 June 2012
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chief Executive, Chairperson and Finance and Risk Manager.

### Commissioners' Responsibility for the Financial Report

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

### Auditor's Responsibility

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



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Commissioners, as well as 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 2012, 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**  
2 October 2012



# Certification of the financial statements

## **Australian Energy Market Commission Financial Statements for the year ended 30 June 2012**

### **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
- present a true and fair view of the financial position of the Commission as at 30 June 2012 and the result of its operations and cash flows for the financial year.

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



.....  
Steven Graham  
Chief Executive



.....  
Laurie Treloar FCPA  
Finance & Risk Manager



.....  
John Pierce  
Chairperson

Date 28 September 2012  
.....

# Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
<b>Expenses</b>			
Employee benefits expenses	5	9,083	7,887
Supplies and services	6	7,790	7,059
Depreciation and amortisation expense	7	726	658
Grants and subsidies	8	72	60
Net loss on disposal/write-off of non-current assets	10	19	17
<b>Total expenses</b>		17,690	15,681
<b>Income</b>			
Interest revenues	11	315	292
Other revenues	12	779	253
<b>Total income</b>		1,094	545
<b>Net cost of providing services</b>		(16,596)	(15,136)
Contributions from participating jurisdictions	13	19,258	14,953
<b>Net result</b>		2,662	(183)
<b>Total comprehensive result</b>		2,662	(183)

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 2012

	Note	2012 \$'000	2011 \$'000
<b>Current assets</b>			
Cash and cash equivalents	14	7,775	5,723
Receivables	15	5,297	4,445
<b>Total current assets</b>		13,072	10,168
<b>Non-current assets</b>			
Property, plant and equipment	16	530	385
Intangible assets	17	1,336	1,714
<b>Total non-current assets</b>		1,866	2,099
<b>Total assets</b>		14,938	12,267
<b>Current liabilities</b>			
Payables	18	872	1,058
Employee benefits	19	432	297
<b>Total current liabilities</b>		1,304	1,355
<b>Non-current liabilities</b>			
Payables	18	55	30
Employee benefits	19	323	176
Provisions	20	20	20
Other non-current liabilities	21	–	112
<b>Total non-current liabilities</b>		398	338
<b>Total liabilities</b>		1,702	1,693
<b>Net Assets</b>		13,236	10,574
<b>Equity</b>			
Retained earnings		11,219	8,557
Working capital		2,017	2,017
<b>Total Equity</b>	22	13,236	10,574

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 2012

	Note	Working capital \$'000	Retained earnings \$'000	Total Equity \$'000
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)
Balance at 30 June 2011		2,017	8,557	10,574
Net result for 2011–12		–	2,662	2,662
<b>Total Comprehensive Result for 2011–12</b>		–	2,662	2,662
<b>Balance at 30 June 2012</b>		2,017	11,219	13,236

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 2012

	Note	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>			
<b>Cash outflows</b>			
Employee benefit payments		(8,756)	(8,020)
Payments for supplies and services		(8,892)	(7,388)
Payments of grants and subsidies		(72)	(60)
GST paid to the ATO		(20)	–
<b>Cash used in operations</b>		<b>(17,740)</b>	<b>(15,468)</b>
<b>Cash inflows</b>			
Receipts from participating jurisdictions		19,474	14,515
Other receipts		387	–
Interest received		313	291
GST recovered from the ATO		178	385
<b>Cash generated from operations</b>		<b>20,352</b>	<b>15,191</b>
<b>Net cash provided by/(used in) operating activities</b>	26(b)	<b>2,612</b>	<b>(277)</b>
<b>Cash flows from investing activities</b>			
<b>Cash outflows</b>			
Purchase of property, plant and equipment		(332)	–
Purchase of intangibles		(230)	(250)
<b>Cash used in investing activities</b>		<b>(562)</b>	<b>(250)</b>
<b>Cash inflows</b>			
Proceeds from the sale of property, plant and equipment		2	–
<b>Cash generated from investing activities</b>		<b>2</b>	<b>–</b>
<b>Net cash used in investing activities</b>		<b>(560)</b>	<b>(250)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,052</b>	<b>(527)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>5,723</b>	<b>6,250</b>
<b>Cash and cash equivalents at the end of the period</b>	26(a)	<b>7,775</b>	<b>5,723</b>

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



# Notes to the Financial Statements

For the year ended 30 June 2012

## 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, and from 1 July 2012 under the National Energy Retail 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.

From 1 July 2012 the Commission assumed rule making responsibility for the National Energy Retail Rules and related market development activities. The funding approved by the Standing Council on Energy and Resources for 2012–13, 2013–14, 2014–15 and 2015–16, includes funding for these responsibilities. Refer to Note 4.

## 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*.

The Commission has applied Australian Accounting Standards that are applicable to not-for-profit entities, as the Commission is a not-for-profit entity. 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 2012.

### 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, 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;
  - ii) expenses incurred as a result of engaging consultants (refer Note 6);
  - iii) employee targeted voluntary separation package information;
  - iv) 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
  - v) commissioner and committee member and remuneration information, where a member is entitled to receive income other than a direct out-of-pocket reimbursement (refer Note 25).

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 2012 and the comparative information presented.

#### **c) Reporting entity**

The Commission's financial statements include the administered activities of the Consumer Advocacy Panel.

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 separate administered 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.

#### **e) Rounding**

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

#### **f) Taxation**

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

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

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

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

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**

Note disclosure is made about events between 30 June 2012 and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June 2012 and which may have a material impact on the results of subsequent years. Refer to Note 28.

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 upon receipt 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 benefits expenses**

Employee benefit expenses 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 superannuation plan in respect of current services of current Commission staff.

### **Depreciation and amortisation**

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

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.

Amortisation is used in relation to intangible assets such as software, while depreciation is applied to tangible assets such as property, plant and equipment. The value of leasehold improvements is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

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	5–20
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. Receivables are generally settled within 30 days after issue of the invoice. Collectability of receivables is reviewed on an on-going basis. An allowance for doubtful debts is raised when there is objective evidence that the Commission will not be able to collect the debt. Bad debts are written off when identified.

### Non-current assets

#### *Acquisition and recognition*

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

#### *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 2012 as the Commission did not have non-current assets which met the revaluation criteria.

#### *Impairment*

All non-current tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

## **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 (identifiably, control and the existence of future economic benefits) and recognition criteria (probability of future economic benefits and cost can be reliably measured) and when the amount of the expenditure is greater than or equal to \$2,000.

## **l) Liabilities**

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

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, and employment on-costs.

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

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

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 reporting date relates to any contributions due but not yet paid.

### ***Operating leases***

The Commission has an operating lease for its office accommodation. In prior years operating lease payments were recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term, however they are now expensed on an actual basis. Refer to Note 3.

### **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 from the employee's commencement date. The Commission's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at 30 June 2012 on Commonwealth Government bonds that have maturity dates approximating the terms of the Commission's obligations.

### **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**

The Commission changed its accounting policy for the expensing of rent. Previously the Commission chose to adopt AASB 117 and expensed rent on a straight-line basis over the life of the lease term. Rent will now be expensed on an actual cost basis. The effect to the financial statements due to this change is a one-off reduction in non-current liabilities of \$92,000 and a corresponding decrease in property expenses of \$92,000.

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 2012. 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. To assist with revenue certainty, in January 2012 the Standing Council on Energy and Resources (SCEER) advised of the approval of funding of \$19.7m for 2012–13, \$19.7m for 2013–14, \$20.5m for 2014–15, and \$21.3m for 2015–16.

## 5 Employee benefit expenses

	2012 \$'000	2011 \$'000
Salaries and wages <sup>#</sup>	7,205	6,413
Long service leave	203	89
Annual leave	623	477
Employment on-costs – superannuation	609	507
Payroll and Fringe Benefits Tax	438	335
Relocation expenses	5	66
<b>Total employee benefit expenses</b>	<b>9,083</b>	<b>7,887</b>

<sup>#</sup> Total employee headcount increased by 8 from 2011.

Employees 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 2011. 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 employees are shown below.

Remuneration of employees	2012 <sup>#</sup> No.	2011 No.
The number of employees whose remuneration received or receivable falls within the following bands:		
\$130,700 – \$133,999*	1	1
\$134,000 – \$143,999	6	2
\$144,000 – \$153,999	4	2
\$154,000 – \$163,999	1	2
\$164,000 – \$173,999	4	2
\$174,000 – \$183,999	3	1
\$184,000 – \$193,999	1	1
\$194,000 – \$203,999	3	1
\$204,000 – \$213,999	1	2
\$224,000 – \$233,999	2	–
\$254,000 – \$263,999	2	1
\$334,000 – \$343,999	–	1
\$374,000 – \$383,999	1	–
<b>Total number of employees</b>	<b>29</b>	<b>16</b>

<sup>#</sup> There were 27 pay periods in 2012 compared to 26 in 2011 resulting in 4 additional employees being reported in the above lower bands, and a number of employees reported at a higher band than normal. A further 7 employees reported in the above bands for 2012 commenced during 2011, but remuneration in that year was less than the above bands. For this reason some year on year comparisons do not reflect actual changes in remuneration.

\* This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2010–11.

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

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 and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received by these employees for the year was \$5,277,000 (2011: \$2,965,000). Commissioners' remuneration is disclosed in Note 25.

## 6 Supplies and services

	2012 \$'000	2011 \$'000
Property expenses	647	826
Information technology expenses	439	432
Accounting and audit expenses	190	231
Legal expenses	21	61
Project contractor and consultancy expenses*	4,240	3,234
Other contractor and consultancy expenses	773	717
General administration expenses	307	372
Project administration expenses*	203	143
Travel and accommodation expenses	428	325
Recruitment expenses	61	338
Staff training expenses	352	336
Other staff related expenses	129	44
\$374,000 – \$383,999	1	–
<b>Total supplies and services</b>	<b>7,790</b>	<b>7,059</b>

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

	2012		2011	
	No.	\$'000	No.	\$'000
<b>The number and dollar amount of Consultancies paid/payable that fell within the following bands:</b>				
Below \$10,000	1	9	2	6
\$10,000 to \$50,000	8	204	5	115
Above \$50,000	21	3,410	13	2,471
<b>Total paid/payable to the consultants engaged</b>	<b>30</b>	<b>3,623</b>	<b>20</b>	<b>2,592</b>

## 7 Depreciation and amortisation expense

	2012 \$'000	2011 \$'000
<b>Depreciation</b>		
Plant and equipment	24	26
IT Infrastructure	99	46
<b>Total depreciation and amortisation</b>	<b>123</b>	<b>72</b>
<b>Amortisation</b>		
Leasehold improvements	3	3
Intangibles	600	583
<b>Total depreciation and amortisation</b>	<b>603</b>	<b>586</b>
<b>Total depreciation and amortisation</b>	<b>726</b>	<b>658</b>

## 8 Grants and subsidies

	2012 \$'000	2011 \$'000
Consumer Advocacy Panel grants	72	60
<b>Total grants and subsidies</b>	<b>72</b>	<b>60</b>

## 9 Auditor's Remuneration

	2012 \$'000	2011 \$'000
Audit fees paid/payable to the SA Auditor-General's Department relating to the audit of financial statements*	28	34
<b>Total audit fees</b>	<b>28</b>	<b>34</b>

\* Auditors fees are included within Supplies and services. Refer to Note 6.

### Other Services

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

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

	2012 \$'000	2011 \$'000
<b>Plant and equipment</b>		
Net book value of assets disposed/written off	(1)	(11)
<b>Net loss from disposal/write-off of plant and equipment</b>	<b>(1)</b>	<b>(11)</b>
<b>IT infrastructure</b>		
Proceeds from disposal	2	–
<b>Net book value of assets disposed/written off</b>	<b>(12)</b>	<b>(3)</b>
<b>Net loss from disposal/write-off of IT infrastructure</b>	<b>(10)</b>	<b>(3)</b>
<b>Computer software</b>		
Net book value of assets disposed/written off	(8)	(3)
<b>Net loss from disposal/write-off of computer software</b>	<b>(8)</b>	<b>(3)</b>
<b>Total assets</b>		
Total proceeds from disposal	2	–
<b>Total net value of assets disposed/written off</b>	<b>(21)</b>	<b>(17)</b>
<b>Total net loss on disposal/write-off of assets</b>	<b>(19)</b>	<b>(17)</b>

## 11 Interest revenue

	2012 \$'000	2011 \$'000
Interest earned on bank accounts	315	292
<b>Total interest revenues</b>	<b>315</b>	<b>292</b>

## 12 Other revenues

	2012 \$'000	2011 \$'000
Recoveries from the Consumer Advocacy Panel*	265	253
Recoveries of project review costs from jurisdiction	514	–
<b>Total other revenues</b>	<b>779</b>	<b>253</b>

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

## 13 Contributions from participating jurisdictions

	2012 \$'000	2011 \$'000
Operational funding	19,258	14,953
<b>Total contributions from participating jurisdictions</b>	<b>19,258</b>	<b>14,953</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 \$5,418,000 (2011: \$4,101,000).

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 \$72,000 (2011: \$60,000) funding received by the Commission for the Consumer Advocacy Panel. Refer to Note 8 for more details.

## 14 Cash and cash equivalents

	2012 \$'000	2011 \$'000
Cash at bank and on hand	7,775	5,723
<b>Total cash and cash equivalents</b>	<b>7,775</b>	<b>5,723</b>

### Interest rate risk

Cash on hand is non-interest bearing. 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.



## 15 Receivables

	2012 \$'000	2011 \$'000
Funding receivable	4,539	4,135
Interest receivable	25	23
Prepayments	154	166
GST input tax recoverable	173	107
Other receivables	406	14
<b>Total receivables</b>	<b>5,297</b>	<b>4,445</b>

### Allowance for doubtful debts

As at 30 June 2012, 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

	2012 \$'000	2011 \$'000
Plant and Equipment, at cost (deemed fair value)	201	170
Accumulated depreciation, at the end of the period	(99)	(77)
<b>Total plant and equipment</b>	<b>102</b>	<b>93</b>
IT Infrastructure, at cost (deemed fair value)	527	280
Accumulated depreciation, at the end of the period	(135)	(215)
<b>Total IT infrastructure</b>	<b>392</b>	<b>65</b>
Leasehold improvements (deemed fair value)	20	20
Accumulated amortisation, at the end of the period	(12)	(9)
<b>Total leasehold improvements</b>	<b>8</b>	<b>11</b>
Total work in progress	28	216
<b>Total property, plant and equipment</b>	<b>530</b>	<b>385</b>

### Impairment

There were no indications of impairment of property, plant and equipment at 30 June 2012.

### Reconciliation of non-current assets

The following table shows the movement of non-current assets during 2011–12.

	2012 \$'000	2011 \$'000
<b>Plant and Equipment</b>		
Carrying amount at beginning of the period	93	130
Additions	34	–
Disposals/write-offs	(1)	(11)
Depreciation	(24)	(26)
Carrying amount at the end of the period	102	93
<b>IT Infrastructure</b>		
Carrying amount at beginning of the period	65	114
Additions	17	–
Disposals/write-offs	(12)	(3)
Transfers in from work in progress	421	–
Depreciation	(99)	(46)
Carrying amount at the end of the period	392	65
<b>Leasehold improvements</b>		
Carrying amount at beginning of the period	11	14
Amortisation	(3)	(3)
Carrying amount at the end of the period	8	11
<b>Work in progress</b>		
Carrying amount at beginning of the period	216	159
Additions	281	250
Transfers out of work in progress	(421)	(193)
Work in progress adjustments	(48)	–
Carrying amount at the end of the period	28	216

## 17 Intangible assets

	2012 \$'000	2011 \$'000
Computer software	2,964	2,903
Accumulated amortisation	(1,628)	(1,189)
<b>Total computer software</b>	<b>1,336</b>	<b>1,714</b>
<b>Reconciliation of computer software</b>		
Carrying amount at beginning of the period	1,714	2,107
Additions	230	–
Disposals/ write-offs	(8)	(3)
Transfers in from work in progress	–	193
Amortisation	(600)	(583)
Carrying amount at the end of the period	1,336	1,714

The internally developed computer software relates mainly to the Commission's Electronic publishing system with a useful life of 3 years and carrying amount of \$683,000.

### Impairment

There were no indications of impairment on intangible assets at 30 June 2012.

## 18 Payables

	2012 \$'000	2011 \$'000
<b>Current</b>		
Creditors	586	379
Accrued expenses	152	539
Employment on-costs	134	140
<b>Total current payables</b>	<b>872</b>	<b>1,058</b>
<b>Non-Current</b>		
Employment on-costs	55	30
<b>Total non-current payables</b>	<b>55</b>	<b>30</b>
<b>Total payables</b>	<b>927</b>	<b>1,088</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

	2012 \$'000	2011 \$'000
<b>Current</b>		
Annual leave	423	293
Accrued salaries and wages	9	4
<b>Total current employee benefits</b>	<b>432</b>	<b>297</b>
<b>Non-Current</b>		
Long service leave	323	176
<b>Total non-current employee benefits</b>	<b>323</b>	<b>176</b>
<b>Total employee benefits</b>	<b>755</b>	<b>473</b>

## 20 Provisions

	2012 \$'000	2011 \$'000
<b>Non-current</b>		
Provision for make good	20	20
<b>Total non-current provisions</b>	20	20
<b>Reconciliation of provision for make good</b>		
Carrying amount at the beginning of the period	20	20
Additional provisions recognised	–	–
Reductions arising from payments	–	–
<b>Carrying amount at end of the period</b>	20	20

## 21 Other non-current liabilities

	2012 \$'000	2011 \$'000
Deferred rent expense liability	–	112
<b>Total other non-current liabilities</b>	–	112

## 22 Equity

	2012 \$'000	2011 \$'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>	2,017	2,017
<b>Retained earnings</b>	11,219	8,557
<b>Total Equity</b>	13,236	10,574

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	2012 \$'000	2011 \$'000
Within 1 year	552	530
More than 1 year but not later than 5 years	672	1,224
<b>Total operating lease commitments</b>	<b>1,224</b>	<b>1,754</b>

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. 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 (re-appointed 27 October 2011)

### Reliability Panel

Neville Henderson (appointed 3 November 2009)

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

	2012# No.	2011 No.
The number of Commissioners and Committee members whose remuneration received or receivable falls within the following bands:		
\$0 – \$9,999	1	1
\$150,000 – \$159,999	–	1
\$160,000 – \$169,999	1	–
\$180,000 – \$189,999	–	1
\$190,000 – \$199,999	1	–
\$490,000 – \$499,999	–	1
\$530,000 – \$539,999	1	–
<b>Total number of Commissioners and Committee members</b>	<b>4</b>	<b>4</b>

# There were 27 pay periods in 2012 compared to 26 in 2011, resulting in some Commissioners being reported in a higher band in 2012. For this reason some year on year comparisons do not reflect actual changes in remuneration.

Remuneration of Commissioners reflects all costs of employment including salaries and wages, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received by Commissioners and Committee members for the year was \$902,000 (2011: \$833,000).

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



## 26 Statement of Cash flow reconciliation

### a. Reconciliation of cash and cash equivalents at the end of the reporting period:

	2012 \$'000	2011 \$'000
<b>Operating lease commitments</b>		
Cash and cash equivalents disclosed in the Statement of Financial Position	7,775	5,723
<b>Balance as per the Statement of Cash Flows</b>	<b>7,775</b>	<b>5,723</b>

### b. Reconciliation of net cash used in operating activities to net cost of providing services:

Net cash provided/(used in) operating activities	2,612	(277)
Contributions from participating jurisdictions	(19,258)	(14,953)
<b>Non-cash items:</b>		
Depreciation and amortisation expense	(726)	(658)
Net loss on disposal/write-off of non-current assets	(19)	(17)
Work in progress adjustments	(48)	-
<b>Movement in assets and liabilities</b>		
Increase in receivables	852	866
(Increase)/decrease in payables	161	(239)
(Increase)/decrease in employee benefits	(282)	143
(Increase)/decrease in other liabilities	112	(1)
<b>Net cost of providing services</b>	<b>(16,596)</b>	<b>(15,136)</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	2012 Carrying amount \$'000	2012 Fair value \$'000
<b>Financial assets</b>				
Cash and cash equivalents	Cash and cash equivalents	14	7,775	7,775
Loans and receivables	Receivables <sup>(1), (2)</sup>	15	4,970	4,970
	<b>Total financial assets</b>		<b>12,745</b>	<b>12,745</b>
<b>Financial liabilities</b>				
Financial liabilities at cost	Payables <sup>(1)</sup>	18	658	658
	<b>Total financial liabilities at cost</b>		<b>658</b>	<b>658</b>

Category of financial assets and liabilities	Statement of Financial Position	Note	2011 Carrying amount \$'000	2011 Fair value \$'000
<b>Financial assets</b>				
Cash and cash equivalents	Cash and cash equivalents	14	5,723	5,723
Loans and receivables	Receivables <sup>(1), (2)</sup>	15	4,172	4,172
<b>Total financial assets</b>			9,895	9,895
<b>Financial liabilities</b>				
Financial liabilities at cost	Payables <sup>(1)</sup>	18	918	918
<b>Total financial liabilities at cost</b>			918	918

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

(2) Receivables amount disclosed here excludes prepayments.

### 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 2012 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

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

	Past due by			Total \$'000
	Overdue for <30 days \$'000	Overdue for 30 – 60 days \$'000	Overdue for >60 days \$'000	
<b>2012</b>				
<b>Not impaired</b>				
Receivables	158	202	–	360
<b>2011</b>				
<b>Not impaired</b>				
Receivables	37	–	35	72

### 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.

2012	Carrying Amount \$'000	Less than 1 year \$'000	1–5 years \$'000
<b>Financial assets</b>			
Cash and cash equivalent	7,775	7,775	–
Receivables	4,970	4,970	–
<b>Total financial assets</b>	<b>12,745</b>	<b>12,745</b>	<b>–</b>
<b>Financial liabilities</b>			
Payables	658	658	–
<b>Total financial liabilities</b>	<b>658</b>	<b>658</b>	<b>–</b>

2011	Carrying Amount \$'000	Less than 1 year \$'000	1–5 years \$'000
<b>Financial assets</b>			
Cash and cash equivalent	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>

### 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 are 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 2012

# Administered Financial Statements

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81	Notes to the Financial Statements

# Statement of Administered Comprehensive Income

For the year ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
<b>Income</b>			
Grant revenues	A4	2,716	1,946
Interest revenues		95	116
<b>Total income</b>		2,811	2,062
<b>Expenses</b>			
Remuneration of the Consumer Advocacy Panel	A9	60	57
Administration expenses		334	309
Evaluation expenses		75	86
Grant expenses		2,226	2,076
<b>Total expenses</b>		2,695	2,528
<b>Net result</b>		116	(466)
<b>Total comprehensive result</b>		116	(466)

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

# Statement of Administered Financial Position

As at 30 June 2012

	Note	2012 \$'000	2011 \$'000
<b>Current assets</b>			
Cash and cash equivalents	A5	2,398	2,349
Receivables	A6	316	340
<b>Total current assets</b>		2,714	2,689
<b>Total assets</b>			
<b>Current liabilities</b>			
Payables	A7	331	422
<b>Total current liabilities</b>		331	422
<b>Total liabilities</b>		331	422
<b>Net Assets</b>		2,383	2,267
<b>Equity</b>			
Retained earnings		2,383	2,267
<b>Total Equity</b>		2,383	2,267
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 2012

	Note	Retained earnings \$'000	Total Equity \$'000
Balance at 30 June 2010		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
Net result for 2011–12		116	116
<b>Total Comprehensive Result for 2011–12</b>		116	116
<b>Balance at 30 June 2012</b>		2,383	2,383

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

# Statement of Administered Cash Flows

For the year ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>			
<b>Cash outflows</b>			
Payments for supplies and services		(782)	(314)
Payments of grants and subsidies		(2,417)	(2,364)
GST paid to the ATO		(57)	(20)
<b>Cash used in operations</b>		<b>(3,256)</b>	<b>(2,698)</b>
<b>Cash inflows</b>			
Receipts from AEMO and the Commission		3,161	2,085
Interest received		96	115
GST recovered from the ATO		48	43
<b>Cash generated from operations</b>		<b>3,305</b>	<b>2,243</b>
<b>Net cash (used in) provided by operating activities</b>	A10(b)	49	(455)
<b>Net (decrease)/increase in cash and cash equivalents</b>		49	(455)
<b>Cash and cash equivalents at the beginning of the period</b>		2,349	2,804
<b>Cash and cash equivalents at the end of the period</b>	A10(a)	2,398	2,349

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

# Notes to the Administered Financial Statements

For the year ended 30 June 2012

## 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 Commission's 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 Panel's 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 deposits at call with financial institutions.

### 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 funding for the Panel for the 2012–13 year was approved by the MCE in January 2012 as follows:

- \$2,393,000 for the electricity component funded by AEMO.
- \$690,000 for the gas component funded by AEMO and AEMC.

## A4 Grant revenues

	2012 \$'000	2011 \$'000
Contributions from – AEMO	2,644	1,886
Contributions from – AEMC	72	60
<b>Total grant revenue</b>	<b>2,716</b>	<b>1,946</b>

The increase in 2012 is due to the Panel utilising some accumulated cash reserves in 2011 in lieu of contributions.

## A5 Cash and cash equivalents

	2012 \$'000	2011 \$'000
Cash at bank	2,398	2,349
<b>Total cash and cash equivalents</b>	<b>2,398</b>	<b>2,349</b>

## A6 Receivables

	2012 \$'000	2011 \$'000
Contributions receivable	289	283
GST input tax recoverable	19	48
Other	8	9
<b>Total receivables</b>	<b>316</b>	<b>340</b>

### Allowance for doubtful debts

As at 30 June 2012, 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

	2012 \$'000	2011 \$'000
Gas and electricity grants payable	122	93
Trade creditors and accruals*	209	329
<b>Total payables</b>	<b>331</b>	<b>422</b>

### Interest rate and credit risk

\* Includes \$164,000 received from the Australian Energy Market Operator (AEMO) which the Panel needs to reimburse to jurisdictions in 2012-13. This is the first of three instalments to be repaid to the jurisdictions over three years. In 2009-10 the Panel received funding of \$510,000 for gas advocacy funding from the jurisdictions, via the Commission. AEMO was responsible for this amount but the timing of the introduction of the responsibility prevented them from collecting and paying this.

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 relate to approved applications for which the grant has not yet been paid.

	2012 \$'000	2011 \$'000
Payable within 1 year	3,187	2,978
	<b>3,187</b>	<b>2,978</b>

The above represents commitments for approved grant applications where the conditions for payment of the grant have not been met. The amount includes \$1,360,000 of grants where funding agreements have been approved, but will be paid from funding to be received in the 2012-13 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 2011–12 year were:

### Consumer Advocacy Panel

Francis Peach (Chairman)

Karen Scott

Bruce Connery

Catherine Cooper

Edward Russell

	2012 \$'000	2011 \$'000
--	----------------	----------------

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

\$0 – \$9,999	2	1
\$10,000 – \$19,999	3	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 \$56,000 (2011: \$57,000).

## 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:

	2012 \$'000	2011 \$'000
--	----------------	----------------

Cash and cash equivalents disclosed in the Statement of Administered Financial Position	2,398	2,349
Balance as per the Statement of Administered Cash Flows	2,398	2,349

### b) Reconciliation of net cash (used in)/provided by operating activities to net result:

Net cash (used in)/provided by operating activities	49	(455)
<b>Movement in assets and liabilities</b>		
Increase/(decrease) in receivables	(24)	90
(Increase)/decrease in payables	91	(101)
<b>Net result</b>	<b>116</b>	<b>(466)</b>

## 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 2012 \$'000	Fair value 2012 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	Cash and cash equivalents	A5	2,398	2,398
Loans and receivables	Receivables <sup>(1)</sup>	A6	297	297
<b>Total financial assets</b>			<b>2,695</b>	<b>2,695</b>
<b>Financial liabilities</b>				
Financial liabilities	Payables <sup>(1)</sup>	A7	327	327
<b>Total financial liabilities</b>			<b>327</b>	<b>327</b>

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

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

### 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 2012 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.

2012	Carrying Amount \$'000	Less than 1 year \$'000	1–5 years \$'000
<b>Financial assets</b>			
Cash and cash equivalent	2,398	2,398	–
Receivables	297	297	–
<b>Total financial assets</b>	<b>2,695</b>	<b>2,695</b>	<b>–</b>
<b>Financial liabilities</b>			
Payables	327	327	–
<b>Total financial liabilities</b>	<b>327</b>	<b>327</b>	<b>–</b>

2011	Carrying Amount \$'000	Less than 1 year \$'000	1–5 years \$'000
<b>Financial assets</b>			
Cash and cash equivalent	2,349	2,349	–
Receivables	292	292	–
<b>Total financial assets</b>	<b>2,641</b>	<b>2,641</b>	<b>–</b>
<b>Financial liabilities</b>			
Payables	422	422	–
<b>Total financial liabilities</b>	<b>422</b>	<b>422</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.

# Statutory reports

## MCE Statements of Policy Principles

In 2011–2012 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 2011–2012.

In 2012–2013, 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 2011 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 2011–2012 the total amount expended was \$3,623,896.70.

Services provided covered a number of areas including:

- Regulatory and economic advice on a range of issues including electric and natural gas vehicles, energy efficiency and demand side participation options;
- Economic and financial modeling of a range of scenarios relating to renewable energy targets, retail electricity prices, alternative transmission frameworks and market resilience;
- Analysis of consumer attitudes to reliability standards;
- Advice on capital expenditure incentives;
- Corporate matters such as performance management, telecommunications, .

Number and dollar amount of consultancies that fell within the following bands:	NO.	2012 \$'000
Below \$10,000	1	9
Between \$10,000 and \$50,000	8	204
Above \$50,000	21	3,410
<b>Total</b>	<b>30</b>	<b>3,623</b>

## 2011–2012 External consultants

Company	Project description
<b>SMS Management &amp; Technology</b>	Stakeholder Enquiry System – option evaluation & business case.
<b>Promontory Australasia (Sydney) Pty Ltd</b>	Financial markets advice.
<b>ACIL Tasman Pty Ltd ACIL Tasman Pty Ltd</b>	Market modelling.
<b>ACIL Tasman Pty Ltd</b>	Market modelling.
<b>NERA Economic Consulting – Expenses NERA Economic Consulting</b>	Market modelling.
<b>NERA Economic Consulting</b>	Advice on transmission planning.
<b>NERA Economic Consulting</b>	Advice on modelling.
<b>NERA Economic Consulting</b>	Advice on modelling renewable energy targets.
<b>NERA Economic Consulting</b>	Advice on modelling renewable energy targets.
<b>Mercer</b>	HR advice & development of performance management system.
<b>SMS Management &amp; Technology</b>	Telecommunications upgrade option evaluation & business case.
<b>Roam Consulting Pty Ltd</b>	Modelling of the impact on transmission costs of renewable generation.
<b>ROAM Consulting Pty Ltd</b>	Modelling alternative transmission frameworks.
<b>AECOM Australia Pty Ltd</b>	Assess the potential uptake of electric vehicles (EVs) and natural gas vehicles (NGVs); costs and benefits of EVs and NGVs to the energy markets.
<b>Creative Energy Consulting</b>	Development of an alternative generator transmission access model.
<b>Hill Michael Associates Consulting</b>	Advice on the development of generator reliability standards.
<b>Futura Consulting Futura Consulting</b>	Investigate the suite of existing and potential DSP options.
<b>Ernst &amp; Young Ernst &amp; Young</b>	Analysis of historical data and demand projections for industrial, commercial and household sectors.
<b>Oakley Greenwood Pty Ltd</b>	Advice on energy efficiency.
<b>Oakley Greenwood Pty Ltd</b>	Distribution reliability review – conducting value of customer reliability survey.
<b>PricewaterhouseCoopers</b>	Advice on efficient price signals.
<b>Intelligent Energy Systems</b>	Advice on the Exercise of the Last Resort Planning Power.
<b>Nuttall Consulting</b>	Reviewing expenditure and reliability outcomes for alternative distribution reliability scenarios for New South Wales.
<b>The Brattle Group</b>	Report on international approaches to distribution reliability, and regulatory approaches to setting capital and operating expenditure allowances.
<b>Economic Insights Pty Ltd</b>	Network rule change – advice on capital expenditure incentives.
<b>CoRE Research Pty Ltd</b>	Expert peer review.
<b>Littlechild Stephen</b>	Advice on network regulation.
<b>Regulatory Policy Institute</b>	Advice on network regulation.
<b>Strategic Finance Group Consulting</b>	Advice on cost of capital issues.
<b>Covec Ltd Covec Ltd</b>	Advice on optimisation of the regulatory asset base & related party margins.

# AEMO's Use of Powers of Direction

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

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 2011 to 30 June 2012 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 2011–2012.

AEMO instructed Transend Networks, the Transmission Network Service Provider in Tasmania, to prevent operation of the Tasmanian Network Control System Protection Scheme (NCSPS).

The instruction was effective from 1742 hours on 3 October 2011 until 1210 hours on 13 October 2011, and was modified four times over that period.

## **Use by registered participants of inspection and testing rights**

From 1 July 2011 to 30 June 2012, AEMO was not informed of any inspections conducted under clause 5.7.1, or any tests conducted under clause 5.7.2 of the National Electricity Rules.



# Compliance Index

The AEMC Annual Report 2011–2012 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  
**Governance (page 22)**
  - b) the AEMC's relationship to other bodies involved in the administration of National Energy Laws  
**Our business (page 2)**
  - c) the membership and organisation of the AEMC  
**Governance (page 22)**
  - d) the AEMC's strategic plans and the relationship of the plans to objectives set out in the National Energy Laws  
**Governance (page 22), Rules and reviews (page 34)**
  - e) the AEMC's activities and their efficiency and effectiveness  
**Our contribution to market development (page 12), Governance (page 22), Rules and reviews (page 34)**
  - f) the AEMC's financial affairs  
**Financial Statements (page 50)**
  - g) disclosures made by Commissioners under section 22 of the Act  
**Governance (page 22)**
  - 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  
**Our people (page 18)**
  - i) the extent to which external consultants have been engaged by the AEMC, the nature of the work undertaken by the consultants and the total cost to the AEMC of the consultancies  
**Statutory reports (page 50)**
  - j) the occupational health, safety and rehabilitation programs of the AEMC and their effectiveness  
**Our people (page 18)**
  - k) any instances of fraud in the operations of the AEMC and the strategies implemented to prevent and control fraud  
**Governance (page 22)**
  - 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 and reviews (page 34)**
    - II Any statements of policy principles that have been issued by the MCE in relation to the AEMC and any directions that have been given by the MCE to the AEMC.  
**Statutory reports (page 50), Rules and reviews (page 34)**
    - 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 and reviews (page 34)**
      - B) the stages at which proposed Rules are in the Rule making procedure, and  
**Rules and reviews (page 34)**
      - C) decisions of the AEMC not to proceed with requests for Rules, and  
**Rules and reviews (page 34)**
      - D) Rules made, and  
**Rules and reviews (page 34)**
      - E) Rules that have come into operation  
**Rules and reviews (page 34)**

- IV MCE directed reviews and AEMC initiated reviews under the National Electricity Law  
**Rules and reviews (page 34)**
- V Market development functions  
**Our contribution to market development (page 12)**
- VI Recommendations made by the AEMC for the MCE to request the making of Rules  
**Rules and reviews (page 34)**
- 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 (page 31)**
- VIII AEMO's use of powers of direction in relation to power station security under clause 4. 8. 9(a) of the Rules  
**Statutory reports (page 50)**
- IX The use by Registered Participants of inspection and testing rights under clauses 5. 7. 1 and 5. 7. 2 of the Rules  
**Statutory reports (page 50)**
- 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  
**Our contribution to market development (page 12), Rules and reviews (page 34)**

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 (page 50)**
- include as a part of the AEMC Annual Report the Consumers Advocacy Panel's report. The Panel's accounts must also be included.  
**Appendix One (page 94)**

# Appendices

## **Appendix 1** **Consumer Advocacy Panel**

Annual Report 2011–2012.

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.

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

# Appendices

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94	A. Introduction
94	B. Panel overview
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97	D. Grants made in 2011/12
100	E. Activities undertaken in consumer advocacy and research projects approved for funding in 2011/12

# Appendix 1: Consumer Advocacy Panel

## 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 of its 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 2011/12 Report from the Panel satisfies requirements in Part 4 (Section 47) of the Act.

The Panel's 2011/12 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 (Karen Chalmers-Scott, Bruce Connery, Catherine Cooper, and Bill Russell) appointed on the recommendation of Ministers responsible for Energy within the Standing Committee on Energy and Resources (SCER).

The terms of Frank Peach and Bill Russell were to expire on 31 March 2012. SCER commenced its recruitment process to fill the pending vacancies however to ensure continuance of the Panel's operations on 1 April 2012, the Australian Energy Market Commission re-appointed the Panel Chair, Frank Peach, and member Bill Russell for a further term of eight months pending the conclusion of the SCER process of appointment.

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 2011/12, 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).

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 2011/12, \$394,281 (14% of total expenditure) was expended on administration, just under budget. The planned upgrade of the grants database was not finalised and the Panel accordingly decided to transfer — as a one-off item of capital expenditure — the amount of \$30,000 from the 2011/12 budget to that of 2012/13 for the establishment of the new database.

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.

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

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.

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

In March 2012, 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 residential consumers and small businesses, and on issues of importance to consumers, including price, reliability and quality of supply
  - Grants were approved to investigate the energy issues facing rural and regional and small business consumers in Tasmania, as well as communities in Victoria and South Australia. That complements 2010/11 research and advocacy grants focusing on NSW and Queensland rural and regional communities, increasing the body of knowledge on those classes of customers and which are available on the Panel website.
  - Just over a third of advocacy grants approved by the Panel were focused on minimising price or addressing energy affordability. Projects ranged from the publication of product prices within a NEM jurisdiction, to submissions to regulatory decisions on tariff structures.
  - The Panel continued its strategy of prioritising those stakeholders in its outreach to consumer advocacy organisations. For example at its meeting in Hobart in July 2012, the Panel met with representatives from small business peak bodies, including the Tasmanian Small Business Council, Aged & Community Services Tasmania, and the Tasmanian Farmers and Graziers Association. Grant applications were subsequently received from two of those peak bodies focussing on energy issues facing Tasmanian small businesses.
  
- 2 Improving the effectiveness of advocacy: undertaking initiatives including improved resources to assist grant applicants and recipients
  - The evaluation of a selection of 2010/11 grants was undertaken in the latter half of 2011/12. The evaluation identified a number of useful lessons for consumer advocates, which are outlined in more detail below.
  - In addition to the evaluation, the Panel published an accompanying Issues Paper outlining the features of effective advocacy, which provides a useful conceptual framework for consumer organisations to assess the impact and focus of their project.
  - The redesign of the Panel's website provided an opportunity to review and refine the resources available to assist grant recipients, including the lessons learned database, capturing the learnings from the independent evaluation. The new website is to be launched in November 2012.
  
- 3 Improving the Panel's communications and engagement with stakeholders: including through improving its communication tools to disseminate widely the research and advocacy funded through grants
  - The Panel published its newsletter *CAPtions* quarterly in 2011/12, moving to an email-only version in December 2011. The newsletter provides information about Panel operations, including recent grant decisions, alerts advocates to opportunities for advocacy through a calendar of forthcoming national regulatory decisions and, to illustrate advocacy in action, outlines the impact of a selection of recent grants. The readership has doubled over the reporting period, with just under 400 advocates, decision-makers, and industry representatives on the *CAPtions* mailing list.
  - 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 from grant recipients on their recent projects.
  - Significant time was spent in designing the website archive of Panel-funded research and advocacy reports and submissions, including in consulting closely with stakeholders to test the objectives and structure of the new database. A key objective of the redesign of the website was to improve access to Panel-funded research and advocacy reports and submissions, to enable advocates to more easily find information relevant to their constituency.
  - To ensure that the research was made easily available to energy consumer groups, the Panel asked for research grant applicants to include a dissemination strategy in their grant application, a successful initiative likely to be repeated in future years.



#### 4 Enhancing the Panel's management of its grants

- The Panel received 56 grant applications, including its landmark 500th grant application, during 2011/12. Grants totalling \$2.45 million were approved by the Panel over the reporting period, with funding released on completion of an agreed project milestone.
- The intended re-development of the grants management database was unable to be completed within 2011/12 due to resource constraints. The Panel accordingly decided to carry-over – as a one-off item of capital expenditure – the amount of \$30,000 to the 2012/13 budget to establish a new database.

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

- 1 Addressing gaps in advocacy
- 2 Improving the effectiveness of advocacy
- 3 Improving engagement with key decision-makers
- 4 Managing grant expenditure risks

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

The Panel funds research through two grant programs:

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

To inform its consideration of applications and assist potential applicants, the Panel consulted with key stakeholders, including decision-makers, on the priority consumer energy issues.

On 8 December 2011 the Panel invited any organisations and individuals with the requisite expertise to submit grant applications to undertake:

- research on one of the following priorities identified by the Panel
  - empowering consumer engagement in network price determinations
  - helping all consumers access benefits from retail competition
  - improving consumer advocacy in the gas market
- research on another issue of benefit to electricity and/or gas consumers in the National Energy Market.

The Panel received 17 research grant applications from consumer advocates, academic institutions, and consultants. The Panel approved 6 research projects, 3 of which were targeted at issues identified by the Panel and 3 on topics identified by the applicants as important to their constituency/membership.

### 2012/13 budget

On 22 August 2011, the Panel published a draft 2012/13 budget on its website, seeking comments from stakeholders. The final 2012/13 budget was submitted for the approval of the Standing Committee of Energy and Resources (SCER) on 15 October 2011.

The Hon Martin Ferguson, in his capacity as SCER Chair, formally advised the Panel in January 2012 that Ministers had approved a total 2012/13 budget of \$3.08 million, representing an across the board CPI increase of 4% to the previous year.

### Evaluation of grants

The Panel published the independent evaluation of a selection of 2010/11 grants undertaken by RobertsBrown.

The evaluation found solid evidence of a high volume of outputs by grant recipients – evidence on the achievement of project outcomes was less easy, due partly to the variable quality of the outcomes proposed in the applications, and partly because the nature of energy advocacy means that a desired outcome can take time to realise. Some of the projects had significant success: they influenced government and regulatory decisions and achieved concrete consumer benefits.

The evaluation identified a number of lessons learned for consumer advocacy organisations, including that advocacy is most effective when:

- it is explicitly treated as core business and an organisational priority
- it reflects the expressed needs of consumers
- consumers are engaged at all stages of the process
- leaders (including Board members) participate at all stages of the process
- it focuses on measurable outcomes for consumers
- clear pathways are articulated showing the journey from the activity to the consumer outcomes
- it is based on a sound understanding of consumer issues, the energy market and the regulatory system
- advocates identify expertise gaps
- advocates cooperate and share skills and knowledge
- it adapts its strategies and tactics to changes in the environment and the success or failure of activities

In addition to the evaluation report, the Panel published the Issues Paper *A Model for Effective Energy Advocacy* which was prepared by Roberts Brown and which detailed the conceptual framework underpinning the evaluation and identified the features of effective advocacy. The paper will provide a valuable resource for consumer advocacy organisations, to help them assess their programs and projects, and refine and articulate proposed outcomes.

To follow through on the evaluation findings, the Panel commissioned RobertsBrown in June 2012 to trial a one on one coaching session with a consumer advocacy organisation, in order to extend the organisation's capacity to refine its 2012/13 proposed outcomes, and identify and articulate the pathways it chooses to achieve them.

## C Panel revenue in 2011/12

In 2011/12 the Panel's total revenue was \$2.81 million, comprising:

- \$2.716 million from fees charged to certain market participants via the Australian Energy Market Operator (AEMO) for expending on electricity advocacy and research projects and the portion of the Panel's administrative costs that relate to electricity 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 gas
- \$95,470 in interest.

## D Grants made in 2011/12

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 2011/12 complied with the principles set out in Schedule 1 of the *Australian Energy Market Commission Regulations 2005*.

### 2011/12 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 56 grant applications (one grant application was approved but subsequently withdrawn).

While the same number of grants was approved as in the previous year, the overall number of applications increased, from 51 to 56 applications.

The total value of the 38 2011/12 grants made was \$2,455,247 (exc GST), a 7% increase from the previous year, and continuing the steady upwards trend of recent years.

Of the 34 grant recipients, 11 organisations had not previously applied for Panel funding. Those included small business and rural consumer organisations, underlining broadening community interest in energy policy and regulatory decisions.

The following reports on all grants made by the Panel in 2011/12, whether those grants were for advocacy or research, and whether they were for the benefit of electricity or gas consumers or benefited both electricity and gas consumers. As one grant can include a number of projects, the following also details the projects undertaken as a result of the grant.

Table 1: All 2011/12 grants (ex GST) made by grant program

Grant type	Grants made	Projects funded	Funding allocated (\$ exc gst)
<b>Advocacy<sup>2</sup></b>			
Electricity	24	61	1,646,693
Gas	5	22	458,915
Joint	3	3	132,823
<b>Panel-initiated research</b>			
Electricity	2	2	29,050
Gas	1	1	51,330
<b>Stakeholder-initiated research</b>			
Joint	3	3	136,435
<b>TOTAL</b>	<b>38</b>	<b>92</b>	<b>2,455,246</b>

The Panel provides funding to advocacy organisations and individuals 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: 2011/12 vs 2010/11 grants made by customer type

	Business		Domestic		Total	
	11/12	10/11	11/12	10/11	11/12	10/11
\$0 – \$50,000	3	8	17	17	20	25
\$50,001 – \$100,000	2	1	8	2	10	3
\$100,000 +	2	2	6	8	8	10

### Grants approved in 2011/12 for activities in 2012/13

As it has done in previous years, the Panel approved grants for projects that will begin on 1 July 2012, in order to provide certainty for consumer advocacy organisations to undertake strategic planning and recruit and employ staff.

In May and June 2012, the Panel approved Global Advocacy Funding Grant and Capacity-Building Grants applications pertaining to the 2012/13 financial year.

The features of these grants are:

- Global Advocacy Funding Grants: one grant supports the range of priority projects nominated by the recipient
  - Table 3 below lists the number of projects as well as the grants made, to reflect the breadth of activity supported by the Panel
- Capacity-Building grants: the grant is used for advocacy and 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 and the number of projects nominated by the applicant.

In 2011/12 the Panel approved global funding grants to the following organisations. As one grant can include a number of projects, the following also details the projects undertaken as a result of the grant.

<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.

Table 3: Global Advocacy Funding Grants approved in 2011/12 for 2012/13

No	Applicant	Project	Projects funded	Amount funded (\$ Exc gst)
526	Major Energy Users Inc	MEU Global Funding 2012/13	13	220,000
532	Australian Council of Social Service	NEM Advocacy and development 2012/13	5	220,000
534	Alternative Technology Association	Advocacy in relation to customer reliability, DG, and smart metering in the NEM 2012/13	4	125,000
535	Consumer Action Law Centre	Consumer advocacy in the NEM 2012/13	3	220,000
537	Total Environment Centre	NEM advocacy 2012/13	2	150,000
<b>Total</b>			<b>27</b>	<b>935,000</b>

In 2011/12, the Panel approved Capacity-Building Grants to the following organisations to facilitate advocacy in 2012/13. As one grant can include a number of projects, the following also details the projects undertaken as a result of the grant.

Table 4: Capacity-Building Grants approved in 2011/12 for 2012/13

No	Applicant	Project	Projects funded	Amount funded (\$ Exc gst)
527	Tasmanian Council of Social Service	Energy Research and advocacy 2012/13	7	44,355.00
528	South Australian Council of Social Service	SACOSS advocacy and capacity-building project 2012/13	3	131,800.00
529	Uniting Care Australia	National Energy Advocacy 2012/13	7	85,181.00
530	Ethnic Communities Council of NSW	Advocacy for CALD households and small businesses in the NEM 2012/13	8	77,500.00
<b>Total</b>			<b>25</b>	<b>338,836</b>

### Grants allocated to the 2011/12 budget: budgeted vs actual expenditure

The following table compares 2011/12 budgeted to actual 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 2013 /14 budget.

Table 5: 2011/12 grants: budgeted versus actual grant approvals

Grant category	Project type	Budgeted 2011/12	Allocated to 30 June 2012	Remaining
<b>Advocacy</b>				
	Electricity Advocacy Projects	1,723,496	1,646,693	76,803
	Gas Advocacy Projects	374,214	458,915	(84,701)
	Joint Advocacy Projects	118,485	132,824	(14,339)
<b>Research</b>				
	Panel initiated			
	• Electricity research	59,002	29,050	29,952
	• Gas research	61,315	51,330	9,985
	• Joint Research	30,658	–	30,658
	Stakeholder initiated			
	• Electricity research	30,658	–	30,658
	• Gas research	30,658	–	30,658
	• Joint Research	29,501	136,435	(106,934)
	<b>Grants sub-total</b>	<b>\$2,457,987</b>	<b>\$2,455,247</b>	<b>\$2,740</b>
<b>Evaluation</b>				
	Evaluation of electricity projects	53,238	43,146	10,092
	Evaluation of gas projects	13,545	19,088	5,543
	Evaluation of joint projects	21,852	12,386	9,466
	<b>Grants total</b>	<b>\$2,546,622</b>	<b>\$2,529,867</b>	<b>\$16,755</b>

## E Activities undertaken in 2011/12 consumer advocacy and research projects

No	Project type	Applicant	Project	Primary outputs (where grant approved)	Approved (A)/ Rejected (R)	Amount Funded
469	Electricity and gas capacity-building/advocacy	Tasmanian Council of Social Service	TasCOSS Energy Research and Advocacy Project 2011/12	<ul style="list-style-type: none"> <li>• Submissions to government/regulatory processes</li> <li>• Capacity-building in TasCOSS</li> <li>• Occasional articles in TasCOSS publications and presentations to members</li> </ul>	A	\$41,660.00
470	Electricity and gas capacity-building/advocacy	South Australian Council of Social Service	SACOSS Capacity-building project 2011/12	<ul style="list-style-type: none"> <li>• Cost of Living report, with a utilities focus</li> <li>• Submissions to government/regulatory processes</li> <li>• Capacity-building and briefing of SACOSS members</li> <li>• Information gathering from SACOSS members</li> </ul>	A	\$110,600.00
471	Electricity and gas capacity-building/advocacy	100% Renewable Community Campaign	Building regional networks:	<ul style="list-style-type: none"> <li>• Building capacity of community networks to advocate on NEM issues</li> <li>• Newsletters to members</li> <li>• Maintenance of website</li> <li>• Submissions to relevant government / regulatory processes</li> </ul>	A	\$95,000.00
472	Electricity and gas capacity-building/advocacy	Regional Development Australia	Establishing an energy advocate for the Adelaide Hills, Fleurieu and Kangaroo Island		R	

No	Project type	Applicant	Project	Primary outputs (where grant approved)	Approved (A)/ Rejected (R)	Amount Funded
473	Global Advocacy Funding Grant – electricity and gas advocacy	Total Environment Centre	NEM Advocacy 2011-2012	<p>Priority 1: Sustaining established consultation advocacy on DSP in key strategic reviews.</p> <ul style="list-style-type: none"> <li>• Submissions to relevant government / regulatory processes</li> </ul> <p>Priority 2: increasing knowledge of NEM among key decision-makers</p> <ul style="list-style-type: none"> <li>• Development of lobbying materials</li> <li>• Strategic review of TEC past advocacy</li> <li>• Meetings with relevant decision-makers</li> </ul> <p>Priority 3: Unifying and strengthening advocacy network on DSP</p> <ul style="list-style-type: none"> <li>• Strengthening and expanding advocacy network</li> <li>• Workshops for advocates</li> </ul>	A	\$140,000.00
474	Electricity and gas capacity-building/ advocacy	Uniting Care Australia	National Energy Advocacy 2011/12	<ul style="list-style-type: none"> <li>• Submissions to government / regulatory processes</li> <li>• Development of advocacy materials on network tariffs</li> <li>• Forums with UnitingCare network members</li> <li>• E-newsletters to UnitingCare network members</li> </ul>	A	\$80,000.00
475	Electricity and gas capacity-building/ advocacy	Ethnic Communities Council of New South Wales	National Energy Reform Advocacy Capacity Building for Ethnic Communities and Small Businesses	<ul style="list-style-type: none"> <li>• Submissions to government / regulatory processes</li> <li>• Convene seminars and develop information materials on NEM issues for ECC NSW members</li> <li>• Articles for ECC publications</li> </ul>	A	\$66,500.00
476	Global Advocacy Funding Grant – electricity and gas advocacy	Alternative Technology Association	NEM Advocacy 2011/12	<p>Priority 1: Smart metering</p> <ul style="list-style-type: none"> <li>• Participation in NSMP working groups, including submissions as required</li> <li>• Submissions to Commonwealth and Victorian Governments processes</li> </ul> <p>Priority 2: Energy pricing</p> <ul style="list-style-type: none"> <li>• Submissions to relevant government/ regulatory processes</li> </ul> <p>Priority 3: Demand side management</p> <ul style="list-style-type: none"> <li>• Submissions to relevant government/ regulatory processes</li> </ul>	A	\$123,250.00

No	Project type	Applicant	Project	Primary outputs (where grant approved)	Approved (A)/ Rejected (R)	Amount Funded
477	Global Advocacy Funding Grant – electricity and gas advocacy	Australian Council of Social Service	NEM advocacy 2011/12	<p>Priority 1: Retail policy and the national regulatory framework</p> <ul style="list-style-type: none"> <li>• Advocacy in relation to NECF implementation</li> <li>• Inform and facilitate advocacy by ACOSS constituency</li> </ul> <p>Priority 2: Smart meters, smart grids</p> <ul style="list-style-type: none"> <li>• Participation in NSMP working groups, including submissions as required</li> <li>• Inform and facilitate advocacy by ACOSS constituency</li> </ul> <p>Priority 3: Climate change, carbon price, energy efficiency</p> <ul style="list-style-type: none"> <li>• Research, policy development and advocacy on climate change responses (energy efficiency, and compensation for low-income)</li> <li>• Inform and facilitate advocacy by ACOSS constituency</li> </ul> <p>Priority 4: National energy policy</p> <ul style="list-style-type: none"> <li>• Submission to Energy White Paper</li> </ul>	A	\$140,000.00
479	Electricity and gas capacity-building/advocacy	Australian Council of Social Service	National Consumer Roundtable on Energy – operations support worker and roundtable meeting expenses		Withdrawn	
480	Electricity and gas capacity-building/advocacy	Queensland University of Technology Credit, Commercial and Consumer Law Program	CCCL Utility Research and Advocacy Project	<ul style="list-style-type: none"> <li>• Submissions to relevant government/regulatory processes</li> <li>• Advocacy on behalf of Qld consumers</li> </ul>	A	\$142,011.90
481	Global Advocacy Funding Grant – electricity and gas advocacy	Consumer Action Law Centre	Consumer Advocacy in the NEM 2011/12	<p>Priority 1: Retail and distribution advocacy</p> <ul style="list-style-type: none"> <li>• 2 case study reports arising from CALC legal practice</li> <li>• Workshops for advocates arising from CALC casework</li> <li>• Submissions to relevant government / regulatory processes</li> <li>• <i>On The Wire</i> quarterly newsletter</li> </ul> <p>Priority 2: Distribution pricing advocacy</p> <ul style="list-style-type: none"> <li>• Advocacy pertaining to merits review</li> </ul> <p>Priority 3: Market design</p> <ul style="list-style-type: none"> <li>• Report on means to improve NEM market design for consumers</li> </ul>	A	\$215,000.00



No	Project type	Applicant	Project	Primary outputs (where grant approved)	Approved (A)/ Rejected (R)	Amount Funded
485	Global Advocacy Funding Grant – electricity and gas advocacy	Major Energy Users	MEU global funding 2011/12	<p>Submissions to the following reviews:</p> <ul style="list-style-type: none"> <li>• Energy White Paper</li> <li>• Gas STTM parameter review</li> <li>• Generator market power rule change</li> <li>• Electricity Transmission Frameworks Review</li> <li>• Roma Brisbane pipeline revenue reset</li> <li>• Electricity networks investment incentives rule change</li> <li>• AER service target performance incentive scheme</li> <li>• Reliability Panel review of electricity market parameters</li> <li>• Inter-regional charging rule change.</li> </ul>	A	\$215,000.00
486	Global Advocacy Funding Grant – electricity and gas advocacy	Energy Users Association of Australia	Priority projects 2011/12	<p>Priority 1: Network price and regulation studies</p> <ul style="list-style-type: none"> <li>• Study comparing TNSP performance</li> <li>• Submissions to relevant AER and AEMC reviews</li> </ul> <p>Priority 2: Vertical integration and market concentration</p> <ul style="list-style-type: none"> <li>• Research report and associated advocacy</li> </ul> <p>Priority 3: Carbon price and pass through</p> <ul style="list-style-type: none"> <li>• Submissions to relevant government reviews and briefing to EUAA members</li> </ul> <p>Priority 4: Impact of gas pipeline regulation on energy users</p> <ul style="list-style-type: none"> <li>• Research report and associated advocacy</li> </ul> <p>Priority 5: Queensland LNG Update</p> <ul style="list-style-type: none"> <li>• Report updating EUAA earlier work</li> </ul>	A	\$215,000.00
487	Electricity advocacy	Regional Development Australia, Adelaide Hills, Fleurieu and Kangaroo Island Inc	Energy Advocacy for Residential & SME customers in the Adelaide Hills, Fleurieu and Kangaroo Island Region	<ul style="list-style-type: none"> <li>• Submission to AEMC DSP review</li> <li>• Submission to Energy White Paper</li> <li>• Report on South Australian 2013 Electricity Distribution Price Determination process, to ensure interests of community are addressed.</li> </ul>	A	\$83,600.00
488	SIR - joint	La Trobe University Bundoora	Ethos and impact of energy labelling on sustainable consumption		R	
489	Electricity advocacy	Queensland Council of Social Service	Response to QCA Issues Paper on review	<ul style="list-style-type: none"> <li>• Submission to QCA</li> </ul>	A	\$10,000.00
490	Electricity and gas advocacy	Australian Council of Social Service	Conference – Electricity and gas: current issues for small consumers	<ul style="list-style-type: none"> <li>• Report on mee ing</li> </ul>	A	\$28,331.00
491	SIR - joint	Carbon Market Economics Pty Ltd	Empowering consumers in economic regulation: challenges and options		R	
492	Electricity and gas advocacy	Footscray Community Legal Centre Inc And Financial Counselling Service Inc	Research into the verification of explicit informed consent in door to door sales contracts	<ul style="list-style-type: none"> <li>• Report and/or submissions seeking changes to the verification process</li> </ul>	A	\$38,000.00
493	Electricity advocacy	Tasmanian Farmers & Graziers Association	Relevance of contestability aggregation rules for Tasmanian Tranche 5A customers	<ul style="list-style-type: none"> <li>• Report, recommendations and presentations on findings</li> <li>• Submission to Tasmanian Government</li> </ul>	A	\$15,000.00

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494	Electricity and gas capacity-building/ advocacy	Australian Council of Social Service	Energy efficiency: Programs that work for low income households	<ul style="list-style-type: none"> <li>• Report on meeting</li> </ul>	A	\$12,370.00
495	Electricity and gas capacity-building/ advocacy	Australian Council of Social Service	National Consumer Roundtable on Energy November	<ul style="list-style-type: none"> <li>• Report on meeting</li> </ul>	A	\$34,105.00
496	Electricity and gas advocacy	St Vincent de Paul Society National Council and Victoria	Expansions and updates to the tariff-tracking tool	<ul style="list-style-type: none"> <li>• South Australian Tariff-Tracking tool (4 workbooks), and report presenting an analysis of SA electricity and gas retail offers Jul 2009 – July 2012</li> <li>• Queensland Tariff-Tracking tool (4 workbooks), and report presenting an analysis of Qld electricity and gas retail offers Jul 2009 – July 2012</li> <li>• Updated version of the Victorian tariff tracking tool and update report analysing Vic electricity and gas retail offers</li> <li>• Updated version of NSW tariff tracking tool, and updated report analysing NSW electricity and gas retail offers</li> </ul>	A	\$66,492.00
497	Electricity advocacy	Tasmanian Small Business Council	Tasmanian Tranche 5A Contestability Rules	<ul style="list-style-type: none"> <li>• Report, recommendations and presentations on factors influencing T5A competition</li> <li>• Submission to Tasmanian Government on effect of current rules and regulations</li> </ul>	A	\$15,000.00
498	Electricity advocacy	Environment Victoria	Victoria's annual energy concession – reducing government liability while improving Victorian quality of life		R	
499	Electricity advocacy	Queensland Council of Social Service	Travel support for consumer advocates to AEMC forum on AER rule changes	<ul style="list-style-type: none"> <li>• Acquittal report</li> </ul>	A	\$4180.00
500	Electricity advocacy	Queensland Council of Social Service	Response to QCA Methodology Paper on regulated retail electricity prices 2012-13	<ul style="list-style-type: none"> <li>• Submission</li> </ul>	A	\$11,000.00
501	Electricity advocacy	Melbourne Energy Institute	Role of distributed solar generation in reducing wholesale spot market electricity prices	<ul style="list-style-type: none"> <li>• Report and advocacy strategy</li> </ul>	A	\$61,150.00
502	Stakeholder-initiated research – electricity and gas	Wimmera Mallee Sustainability Alliance	Drivers and barriers for adoption of energy saving behaviours in the Wimmera Southern Mallee		R	
503	Electricity and gas capacity-building/ advocacy	Consumer Action Law Centre, Consumer Utilities Advocacy Centre, Queensland University of Technology Credit, Commercial and Consumer Law Program	Advocacy Futures in the NEM	<ul style="list-style-type: none"> <li>• Report</li> </ul>	A	\$25,000.00
504	Electricity and gas capacity-building/ advocacy	Queensland Council of Social Service	National Consumer Roundtable on Energy – March and June 2012 meetings	<ul style="list-style-type: none"> <li>• Report on meeting</li> </ul>	A	\$63,790.00

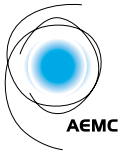
No	Project type	Applicant	Project	Primary outputs (where grant approved)	Approved (A)/ Rejected (R)	Amount Funded
505	Panel-initiated research – gas	Consumer Utilities Advocacy Centre	Understanding the issues confronting Australian gas consumers		R	
506	Stakeholder-initiated research – electricity and gas	Carbon Market Economics Pty Ltd	Empowering consumers in economic regulation: challenges and options	• Report	A	\$51,700.00
507	Stakeholder-initiated research – electricity and gas	St Kitts Associates	Energy Market Objectives report 2012: a review of NEO and NGO interpretations		R	
508	Stakeholder-initiated research – electricity and gas	University of Sydney	Impacts for low-income households of rising energy prices	• Report	A	\$74,850.00
509	Stakeholder-initiated research – electricity	Alternative Technology Association	Consumer Guide to Smart Meter products and services		R	
510	Electricity advocacy	University of South Australia	Patterns of electricity use for medically required cooling by Australians with MS	• Report and advocacy strategy	A	\$37,400.00
511	Panel-initiated research – electricity	University of Tasmania	Empowering consumer engagement in electricity network tariff design		R	
512	Stakeholder-initiated research – electricity and gas	Environment Victoria	Energy concessions and energy efficiency programs		R	
513	Electricity advocacy	ClimateWorks Australia	Rule change proposal to support Cogen Portfolio Project solutions (travel and meeting costs)	• Report on meetings	A	\$15,490.00
514	Panel-initiated research – gas	Engineroom Infrastructure Consulting	Customer perspectives on the impact of the STTM		R	
515	Panel-initiated research – gas	Engineroom Infrastructure Consulting	Impact of gas supply charges on consumer incentives to switch		R	
516	Stakeholder-initiated research – electricity	Engineroom Infrastructure Consulting	Updating AP 450 – NEM standing offer prices	• Report and relevant spreadsheets	A	\$3,200.00
517	Panel-initiated research – gas	Alviss Consulting and Darach Energy Consulting	Barriers to competition in the VIC and NSW gas markets	• Report and briefing of National Consumer Roundtable on Energy	A	\$25,480.00
518	Stakeholder-initiated research – electricity and gas	Queensland Council of Social Service	Best practice models to assist low-income households meet energy costs	• Report	A	\$31,858.29
519	Stakeholder-initiated research – electricity and gas	Queensland Council of Social Service	CALD consumers' participation in energy markets		R	
520	Electricity advocacy	UnitingCare Australia	Supporting advocacy on AEMC network rule change 2011/12	• Report	A	\$39,400.00
521	Stakeholder-initiated research – electricity and gas	Wimmera Mallee Sustainability Alliance	Drivers and barriers for adoption of energy saving behaviours in the Wimmera Southern Mallee		A	\$30,000.00

No	Project type	Applicant	Project	Primary outputs (where grant approved)	Approved (A)/ Rejected (R)	Amount Funded
522	Stakeholder-initiated research – electricity	Total Environment Centre	The consumer and environmental performance of the voluntary renewable energy electricity market		R	
524	Electricity advocacy	Moreland Energy Foundation	Smart meter web portals – a suitable means to evaluate electricity offers?	• Report and advocacy relating to the findings	A	\$14,470.00
525	Electricity advocacy	Queensland Council of Social Service	Response to QCA decision on regulated retail electricity prices 2012-2013	• Submission	A	\$10,000.00
536	Electricity advocacy	Consumer Action Law Centre	UK experience of reviews of network pricing determinations		R	
540	Electricity and gas advocacy	Good Shepherd Youth and Family Service	Energy Affordability, Financial Hardship and Consumer Strategies		R	
541	Electricity advocacy	Queensland Council of Social Service	Electricity pricing reform in Queensland	• Submissions to Queensland government and Queensland Competition Authority	A	\$69,631.12
					<b>TOTAL</b>	<b>\$2,455,246.31</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



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