

# AUSTRALIAN CLEAN ENERGY SUMMIT 2016

*Chairman Australian Energy Market Commission John Pierce  
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## ***Smart Regulation for a 21st Century Energy System Check against delivery***

Thank you to the Clean Energy Council for inviting me to be part of today's panel discussion. First let me briefly outline the role of the AEMC in helping to transform Australia's energy markets.

The Commission is a national body responsible to the COAG Energy Council of energy and resources ministers from the Commonwealth, states and territories. We have two main jobs:

We provide advice to the COAG Energy Council on developing energy markets in ways that will benefit energy consumers.

**The redesign of the east coast gas market that we are releasing tomorrow to free up gas trade is an example of this work;** and

We have a statutory role where we make rules under the national electricity, gas and energy retail laws that govern how energy markets operate.

The rule-making process is democratic – any individual or organisation can request a rule change.

The Commission is unable to propose rules itself in order to ensure that absolutely impartial decisions are made . . . based on evidence . . . focussed on making sure consumers continue to get reliable, secure energy at the best price possible.

In recent times however, many of the things impacting the energy sector have of course originated from outside the national gas and electricity market governance structures of the COAG Energy Council and its market institutions.

In particular, the Commission and others have been pointing to the consequences of a lack of integration between energy and emission reduction policies. So the recent appointment of a Commonwealth Minister for Environment and Energy is a welcome development.

Especially as it follows a request by the COAG Energy Council for our advice on the impact of emission reduction policies on the energy sector in order to facilitate better integration.

The achievement of traditional energy policy objectives, such as system security, reliability and price, and a policy to achieve a specified reduction in emissions from this sector, need not be seen as mutually exclusive.

It is not helpful to position a discussion of how to reduce emissions separately from how to maintain secure and reliable electricity supply as if they are. Especially for consumers who already find the pace of change to be quite confusing.

The role of the traditional, centralised energy supply model is changing due to new products and services, including renewables like wind and solar. But much of the current debate is still inwardly focused on the industry when it should be going beyond renewables alone – because the change we are seeing in the market is increasingly led by consumers; and all about making sure consumers can make the choices that are best for them so they have greater control over how they manage and use their electricity.

## **A framework based on consumer choice**

Much of our efforts over the past five years have been in providing more opportunities for consumers to make informed choices about the way they use electricity based on their own assessment of the benefits that end-use services provide to them.

The AEMC does not try and pick winners. We do not judge success by the penetration of any particular technology.

Rather we aim for a set of market and regulatory arrangements that can adjust to whatever the future may bring.....say with respect to the level or pattern of demand, business models, technology or relative costs of fuel sources and so on.

That is to say, we try and avoid success in meeting policy objectives being dependent on bets or forecasts of how these things will work out in reality.

Whenever possible we start from the premise that the best judges of what is in consumer's interests are consumers themselves.

So that the choices consumers make drive the way the sector develops, the technologies that get deployed and the business models that succeed.

And where there are barriers or constraints to consumers exercising their choices our preference is to address them directly rather than use regulatory instruments to impose solutions.

We can all see that there is an energy revolution happening around us.....in clean energy technologies, distributed generation, in storage, in smart devices and information management, electric vehicles and the like. These technologies are enabling changes in how consumers potentially participate in energy markets.

However, we need to look beyond the "widgets" to focus on the function they perform and where necessary adjust the regulatory and market processes to accommodate them. Many of the functions they perform are not new – pump storage hydro systems and batteries are both at times a load and at other times a source of energy - what is new is that the technology allows these functions to be performed much closer to, and within the control of, consumers.

Given this trend of decentralisation or disaggregation of decision making, our goal becomes to allow consumers to decide when the value to them of using energy services is greater than the efficient costs to the system of producing it.

In particular, the reforms flowing from the Commission's Power of Choice review have laid the foundations for an energy system ...or more precisely an energy eco-system ... that is positioned to adopt these new technologies in response to the choices consumers make.

This is why we have focused on changes such as network pricing reform – from 1 July 2017 networks will be required to structure their prices to better reflect the consumption choices of individual consumers.

Another example is our competition in metering reforms, where we have removed the regulatory barriers to competition in metering services. In removing the networks' monopoly, we want consumers, via their participation in the competitive retail services market, to be able to choose the products and services enabled by advanced metering technology that they value.

These developments have also triggered a re-think of where the line is drawn between which parts of the sector are subject to economic regulation and where competition can be effective, and of the dominance of and reliance on, the traditional centralised power system.

But of course the transition that the sector is going through is a long way from being completed. As regulators we are a long way from being able to “set and forget.” Our recently released competition review and consumer research showed that the biggest barrier to the adoption of new technologies is consumer confidence, knowledge and understanding of what they offer to them.

Many consumers find new technologies appealing but there are significant gaps in information about what they mean for them, confidence in consumer protections and being able to compare options. The review made a number of recommendations to the jurisdictions that would address these issues.

### **A flexible and adaptable energy market framework**

More broadly, there are a number of ways that we can help market and regulatory frameworks evolve appropriately – keeping in mind that we are not intending to second guess the market but rather transition the market alongside the changes in technology and consumer preferences

Firstly, the AEMC in its role of adviser to the Energy Council conducts a strategic priorities exercise every two years. That process is designed to highlight the key areas of policy focus to help shape the Council’s agenda and the work of the energy market bodies, particularly the AEMC. So that’s a good way to really draw attention to the types of changes we’re seeing in energy markets and start to consider whether any changes to the law, rules, guidelines or procedures are required.

Secondly, the existing governance framework in the Australian energy market – where anyone can submit a rule change request to the AEMC for consideration – is a way for the market and regulatory frameworks to keep pace with the needs of consumers and market participants. If a consumer group or business sees a problem in the market, they can ask the AEMC to look at it, and subject to our decision making framework under the National Electricity and National Gas Objectives, we can revise the rules. It’s a great way to put the market more in control of its own development.

Thirdly, the AEMC and the other market bodies are undertaking a range of work, outside of business as usual processes, that looks at the implications of market changes. The AEMC initiated a technology-related work program back in 2014 and some of you may have been involved in one of the public consultations we undertook related to the Integration of Battery Storage.

Storage technologies like batteries are a good example of how new technology more broadly can lead to changes in the regulatory framework. It is the potential for storage to perform a number of functions and possibly generate multiple value streams that makes it particularly interesting.

The AEMC’s work program in storage and other technology-related areas is continuing. This month we initiated a review into whether market frameworks are suitable to complement the increasing volumes of renewable energy and to maintain power system security as the industry transforms.

The impact of renewable energy on system security was highlighted in the AEMC’s Strategic Priorities as an important focus in the coming years and this review has been initiated to continue our work in this area. The review will provide recommendations to the COAG

Energy Council on changes required to the wholesale market arrangement and supporting regulatory frameworks to meet these power system security challenges, with an interim report due to the nation's energy ministers by the end of this year.

### **Integration of energy and environmental policies**

I will conclude where I began.

It is our view that greater integration of environmental and energy policy is required to maintain and enhance an efficient, safe, secure and reliable energy system that keeps prices as low as possible for consumers.

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

The AEMC's role lies with providing advice on these mechanisms and seeing them implemented in a way that supports the efficient operation of the energy market and the long-term interests of consumers.

The effective integration of energy and environmental policy helps to create policy sustainability that, in turn, contributes to the regulatory certainty that is critical for all investors in the energy sector – including renewable energy. That's why we are working to support the greater integration of environmental and energy policy – and why it is one of the AEMC's strategic priorities.

I look forward to today's discussion and, as always, listening to your views on the evolution of a flexible and resilient energy market – something which we all have a stake in.

Thank you.