

# MINISTERIAL COUNCIL ON ENERGY

## Communiqué

Perth, 13 December 2007

Australian Government, State and Territory Energy Ministers met in Perth on 13 December 2007 for the 14<sup>th</sup> Meeting of the Ministerial Council on Energy (MCE). The meeting was chaired by the Hon. Martin Ferguson, Australian Government Minister for Resources and Energy. The Council comprises Australian Government, State and Territory Ministers with responsibility for national policy and governance of the Australian energy market.

State and Territory Ministers welcomed the opportunities presented by a cooperative approach between the Commonwealth and States for the making of significant progress on the energy agenda, including engagement on climate change matters as they relate to energy.

### **Drought Impact on the National Electricity Market**

The impact of the drought on bulk electricity supplies in Eastern Australia and the operation of the National Electricity Market (NEM) were discussed. Ministers noted the National Electricity Market Management Company's (NEMMCO) third report, *Potential drought impact on electricity supplies in the NEM*, published on its website on 10 December 2007.

Mr Les Hosking, NEMMCO Managing Director, advised MCE that the most recent analysis of security of generation capacity (bulk supply) in the NEM jurisdictions (all jurisdictions excluding WA and NT), indicates continued improvement across the national electricity market with all regions projected to better the NEM 0.002% unserved energy standard during the study period to September 2009.

Ministers welcomed this continued improvement, but noted there is always a possibility of adverse outcomes from extreme events.

Ministers noted the upward pressure on spot and forward market prices as a result of generator capacity and energy restrictions due to the drought. These price outcomes were discussed with Mr Steve Edwell, Chair, Australian Energy Regulator (AER), who noted the impact of the drought has eased but supply conditions remain tight. Mr Edwell also noted that the tight supply conditions will continue to put pressure on electricity prices, but, consistent with the NEMMCO drought report, is unlikely to impact on reliability.

Ministers reiterated their confidence in the market as the primary mechanism for dealing with supply, demand and energy constraint issues and noted the current investment activity in both gas and electricity infrastructure.

In May 2007, Ministers endorsed a significant forward work program recognising the market's reliance on timely information to deliver efficient outcomes. Ministers noted progress on several initiatives currently being taken forward by NEMMCO and the Australian Energy Market Commission (AEMC) on managing limitations due to input constraints.

Ministers also considered the initiatives currently being undertaken by MCE Standing Committee of Officials (SCO) and NEMMCO to further improve information availability to the market. NEMMCO and SCO have been requested to:

- explore and implement improvements to the public availability of information on total planned generator outages by region and make the currently available historical information more accessible; and
- implement arrangements to assist Market Participants and users by making available on its website publicly available information on generators' water supply.

Despite an easing in the immediate drought impacts on bulk electricity supplies, Ministers consider it prudent to continue to monitor supply conditions into the future. Accordingly, Ministers endorsed continuation of the current work program and reporting arrangements.

## **Energy Market Reform Legislative Packages**

### *Economic Regulatory Package*

The MCE was pleased to note that amendments to the National Electricity Law have passed through the South Australian Parliament, enabling the transfer of the economic regulation of electricity distribution to the national framework from 1 January 2008. This is a significant milestone in energy market reform. The NSW and ACT distribution reset processes are set to commence early next year under the new governance arrangements.

Ministers also noted the finalisation and MCE approval of the amendments to the National Electricity Rules and the amendments to the National Electricity Law Regulations. The amended rules transfer distribution regulation to the AER and set out the framework for the regulation of electricity distribution networks. The amended rules also contain appropriate transitional arrangements to deal with the transition to the national framework and the ongoing regulation of the current distribution determinations. After the making of the initial rules, the AEMC as the rule maker will be able to amend the distribution rules, and other rules, consistent with the rule change process. The NEL Regulations have been amended to reflect changes to the National Electricity Law.

To assist the transition to the first resets for South Australia and Queensland, the AER market-wide review of the distribution cost of capital parameters has been moved forward to conclude by 31 March 2009. The MCE acknowledged merit in aligning the timing of the equivalent transmission review, but noted this is an issue for the AEMC.

The National Electricity Law, Rules and Regulations will commence on 1 January 2008.

Ministers noted that the National Gas Law legislation is close to finalisation and introduction to the SA Parliament is expected in an early 2008 sitting period. Ministers were pleased to note that finalisation of the various State and Territory application Acts is expected to see the implementation of important reforms to the gas access regime as well as the application of national governance arrangements to the economic regulation of gas transmission and distribution by the middle of 2008.

The National Electricity Law Amendments and National Gas Law together will implement uniform national governance arrangements for economic regulation of Australia's energy markets and enhance the consistency of regulation across the energy market.

*Consumer Advocacy*

The MCE noted the consumer advocacy amendments to the *Australian Energy Market Commission Establishment Act 2004*, which have passed through South Australian Parliament. These will significantly strengthen the national consumer advocacy arrangements for both electricity and natural gas. These amendments will come into operation at the same time as the National Gas Law.

*Retail Framework*

The MCE noted a report from Officials on progress on the retail legislative package that will transfer regulation of distribution (non-economic) and retail (non-price) functions to the AER and the AEMC.

Delayed finalisation of the economic regulatory package, and the complex range of state and territory legislative and regulatory instruments that need to be synthesised into an efficient and effective national package for regulation of the non-economic aspects of distribution and retail services, has required rescheduling of the retail legislative package for introduction to the SA Parliament by no later than 30 September 2009.

MCE considers that these changes in the timetable for the legislative packages will enable the benefits of the consultation process to be fully realised and has agreed to adjust the relevant dates in the Australian Energy Market Agreement.

*New South Wales Reforms*

Ministers noted the NSW Government's announcement this week to move its retail businesses to the private sector and lease its generation assets. MCE noted NSW's ongoing support and commitment to the National Energy Market (NEM) and sees the benefits of: strengthening the investment climate in NSW and the NEM; better focussing Government on facilitating efficient and effective markets and regulation rather than operation; continuing to protect consumers, the workforce and encouraging economic development; and accelerating environmental improvements in clean coal and renewables. These reforms will have implications for the timing of the AEMC review of the effectiveness of competition in the NSW market.

**Gas and Electricity Retail Market Competition Reviews**

Ministers noted progress in the AEMC review of the effectiveness of retail competition in Victoria, and agreed to request the Commission to commence its review of the South Australia retail market. The AEMC is expected to report its findings on SA back to the South Australian Government and MCE by the end of 2008.

**Australian Energy Market Operator**

Ministers agreed to a detailed implementation plan for the establishment of a national single energy market operator for electricity and gas, to be called the Australian Energy Market Operator (AEMO). In line with the Council of Australian Governments (COAG) decision at its meeting on 13 April 2007, it was agreed to provide the plan to COAG immediately. Ministers took the opportunity to thank industry participants for their valuable contribution to the development of the implementation plan.

The agreement to the implementation plan keeps the reform process on track with AEMO expected to commence operations on 1 July 2009. Ministers noted that the next critical stage in the process, the appointment of the AEMO board, should commence as soon as possible so that the board can be in place by the middle of 2008.

## **Smart Meters**

COAG has committed to a national mandated roll-out of electricity smart meters to areas where benefits outweigh costs, as indicated by the results of the cost-benefit analysis which will take account of different market circumstances in each state and territory and the circumstances of different groups of consumers. Ministers agreed to review this cost-benefit analysis and the scope of the national mandate at their next meeting in early 2008.

Ministers agreed that under any roll-out plan a consistent National Minimum Functionality for smart meters is necessary to maximise the benefits of smart meters across all stakeholders. Ministers also supported an initial list of functions to be included in the National Minimum Functionality, based on a cost-benefit analysis of functions and consultation with stakeholders. Ministers referred these functions to further work by a technical stakeholder group, to develop and advise on technical definitions, performance and service level requirements and relevant Rules.

To maximise benefits and minimise the costs and risks of new technologies, Ministers committed to work with stakeholders to facilitate an appropriate range of pilots and technical trials as a key part of the implementation plan under any mandated roll-out. Ministers also agreed that a review of jurisdictional consumer protection and safety arrangements will be facilitated as an important part of any rollout.

## **Demand Side Response**

The Council noted significant progress on its commitment to facilitate efficient and effective demand side response mechanisms in the electricity market, including research conducted into barriers to promoting the efficient uptake of demand side response by network owners and operators. Ministers noted that this work resulted in changes to the National Electricity Rules under the economic package to support the utilization of efficient demand side response by network operators, including the facilitation of demand management schemes, a requirement that network operators consider efficient non-network alternatives in developing capital and operating cost forecasts, service and efficiency incentive schemes, and measures to ensure tariff review where demand response is demonstrated.

Ministers noted that progress on Demand Side Response had also been integrated into broader project areas such as development of network connection and planning arrangements, and the cost-benefit analysis for a national smart meter roll-out, which considers both price response and load control.

The MCE also noted that the AEMC recently instigated a review of the role of demand side management in the National Electricity Rules. This will include consideration of demand side participation in the context of congestion management, reliability and transmission planning.

## **Financial Markets**

Ministers welcomed the improved integration of energy spot and future contract markets through the recent AEMC rule change on settlement reallocations. Ministers recognised that additional benefits could be gained through further reform and requested that officials work with relevant parties, including financial market participants, to develop options for further consideration.

## **Gas Market Bulletin Board and Short Term Trading Market**

The MCE noted the excellent progress made by the Gas Market Leaders Group in finalising the operational and data requirements for the Bulletin Board, and the public consultation on the Rules for operation of the Bulletin Board, which is expected to commence in the near future. The MCE noted the imperative of finalising the legislation to empower the Bulletin Board through the National Gas Law, and looks forward to achieving this by the middle of 2008.

On the Short Term Trading Market, the MCE looks forward to receiving advice from the Gas Market Leaders Group by the end of December on the issue of proceeding to the next phase of detailed market design. Ministers anticipate ongoing work on this project in 2008.

## **National Framework for Energy Efficiency Stage II**

The MCE's National Framework for Energy Efficiency (NFEE) has now been operating for more than three years and Ministers again noted the positive contribution that energy efficiency can make to Australia's economic and environmental performance. Ministers further noted achievements from NFEE Stage I including:

- Minimum Energy Performance Standards (MEPS) for a range of appliances;
- In conjunction with the Australian Building Codes Board, the introduction of minimum energy efficiency standards for new buildings;
- Implementation of the Energy Efficiency Opportunities (EEO) program; and
- Development of training courses and accreditation systems for key industry sectors.

The MCE followed through on its undertaking to develop a future direction for NFEE by focussing on key opportunities for energy efficiency improvements across the residential, commercial and industrial sectors. To this end the MCE agreed to a package of the following five new energy efficiency measures for delivery under NFEE Stage II:

- Expanding and enhancing the MEPS program;
- Heating, ventilation and air conditioning (HVAC) high efficiency systems strategy;
- Phase-out of inefficient incandescent lighting;
- Government leadership through green leases;
- Development of measures for a national hot water strategy, for later consideration.

Implementation of new energy efficiency measures will be subject to full stakeholder consultation and, where appropriate, Regulatory Impact Statements. NFEE Stage II will also include an energy efficiency data gathering and analysis project, to support ongoing policy development.

In addition to the new measures, the MCE noted that a number of Stage I measures are continuing including the EEO program, the Energy Efficiency Exchange (EEX), and the National House Energy Rating Scheme (NatHERS). Ministers acknowledged further Stage I measures that will be introduced subject to Regulatory Impact Statements include provision of energy use benchmarks on energy bills and mandatory disclosure of energy performance of residential and commercial buildings.

Ministers noted that well-targeted energy efficiency measures will complement introduction of the national greenhouse gas emissions trading system and reduce the cost to the economy of emissions reductions.

## **Energy Security**

The MCE reaffirmed a strong commitment to energy security. Ministers noted two key elements of the National Oil Supplies Emergency Committee (NOSEC) workplan are due to commence by the end of 2007, namely the Liquid Fuel Vulnerability Assessment and the National Liquid Fuel Emergency Simulation, *Exercise Catalyst 2008*. Ministers noted that it is anticipated that all jurisdictions will take part in Exercise Catalyst 2008.

## **Long Term Domestic Gas Supply**

The MCE has been working with the Ministerial Council on Mineral and Petroleum Resources (MCMPR) to investigate options for securing domestic gas reserves to guarantee long term energy security for all Australian jurisdictions, and to capitalise on unprecedented global demand for liquefied natural gas. Ministers received the final package from the Joint Working Group containing the final report, the consultants' report and stakeholder feedback. Ministers will be considering the recommendations, noting that a number are already being addressed through the energy market reform program.

## **Climate Change**

### *Role of energy*

Ministers welcomed progress towards a new global emissions agreement at the United Nations Climate Change Conference in Bali this week, noting that a short-term target for reducing Australia's emissions will be determined during 2008. The Australian energy sector will have a major role to play in meeting that target.

Ministers agreed that cooperation between the Australian, State and Territory Governments, with industry, is essential to ensure a sustainable energy future. While the recent focus of the MCE on energy market reform, energy efficiency and energy security remain essential, Ministers look forward to working together on a broader climate change agenda.

### *Carbon capture and storage*

Ministers noted the continuing development of the regulatory package to provide access and tenure for injection and storage of greenhouse gases in offshore Commonwealth waters via amendments to the *Offshore Petroleum Act 2006*. Ministers look forward to the implementation of this regulatory package.

The MCE also looks forward to the report to be prepared by the MCMPR Carbon Capture and Storage (CCS) Working Group on the scope for a national CCS framework and the feasibility of common user pipelines. Ministers also noted the establishment of a MCMPR-EPHC Joint Officials Working Group to develop nationally consistent guidelines for the environmental assessment of CCS projects.

The MCE noted the completion and recommendations of the House of Representatives Report into the Science of Geosequestration and look forward to the Australian Government response which is currently being prepared.

Ministers agreed that their next meeting will be in the Australian Capital Territory in May 2008.

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Ends