

MINISTERIAL COUNCIL ON ENERGY

Communiqué

Hobart, 4 December 2009

Australian, State and Territory Government Energy Ministers met in Hobart on 4 December 2009 for the 21st Meeting of the Ministerial Council on Energy (MCE). The meeting was chaired by the Hon Martin Ferguson AM MP, Australian Government Minister for Resources and Energy. The Council comprises Australian, State and Territory Government Ministers and has responsibility for national policy and governance of the Australian energy market.

Key outcomes were:

- Ministers agreed their response to the Australian Energy Market Commission (AEMC) review of energy market frameworks in light of climate change. Ministers noted the significant task facing energy markets in moving to a low-emissions future, and the key role that energy technology will play in facilitating a reduction in greenhouse gas emissions. Ministers reiterated the importance of transitioning in a manner that brings on the significant investment that is needed in energy infrastructure, while noting the difficulties for investors in the current environment where there is still no clear framework regarding a price on carbon. Ministers also noted the current review of aspects of the expanded Renewable Energy Target (RET) and the importance of ensuring the design of the expanded RET facilitates large scale renewable energy generation investment.
- Noting the significant investment required in the energy sector in coming years, Ministers agreed to maintain a watching brief on investment trends and to examine energy market frameworks to identify any necessary refinements to market design so as to ensure that adequate investment will be delivered in a timely manner.
- Ministers discussed the possible forward price path for energy prices, noting that ageing infrastructure, growing demand and policies to reduce greenhouse gas emissions require significant capital and operating investment in electricity generation and networks. This investment is ultimately paid for by consumers, and Ministers noted that price rises are expected to occur in coming years. Ministers agreed to continue work to ensure transparency in prices. Ministers also recognise the important role that a stable market framework, regulatory environment, and market based price signals play in ensuring investment occurs.
- Ministers agreed in principle to the Final Energy Technical and Safety Harmonisation Plan, with further work to be undertaken to progress the proposed Intergovernmental Agreement.
- Ministers noted that the Standing Committee of Officials (SCO) released the Second Exposure Draft of the National Energy Customer Framework (NECF) for consultation on 27 November 2009. Ministers also agreed that applicable jurisdictions will introduce the NECF progressively between July 2011 and July 2013, noting that some transitional arrangements will be required.

Agency Reports

Ministers noted reports from the Australian Energy Market Operator Limited (AEMO), the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER) on current market conditions and work programs. Each agency also provided Ministers with an update on expected conditions for this summer and advice on key challenges and priorities for the market in the medium term.

Ministers also noted the recent events with regards to climate change policies. Ministers reiterated the significant role that the energy sector will play in moving to a low-emissions future. Ministers were clear that the introduction of a price on carbon needs to ensure a smooth transition, and attract investors to deliver the needed infrastructure investment over coming years.

Climate Change

Ministers recognised the importance of ensuring a smooth transition to a low carbon economy and the particular issues that this raises for Australia's energy markets. It is in this context that Ministers considered the AEMC's Final Report on *Energy Market Frameworks in Light of Climate Change Policies* which was released on 8 October 2009.

Ministers agreed a response which supported the AEMC's key finding that energy markets will generally be resilient to the challenges associated with the introduction of climate change policies. In particular Ministers agreed that the current energy market design is fundamentally sound. However, Ministers also recognised the need to continually refine and further strengthen existing frameworks and Ministers agreed to request the AEMC to initiate rule change processes to introduce a new framework for the more efficient connection of clusters of generation known as Scale Efficient Network Extensions and to introduce inter-regional transmission charging arrangements. Ministers also recognised the need to ensure the close coordination of generation and network development and will ask the AEMC to undertake further work in this area.

Forward Work Program

In the context of climate change policies and broader market structural changes, Ministers discussed the key challenges facing Australia's energy markets. Ministers agreed to take a more proactive stance in monitoring investment activities in the market to ensure the continuing security of energy supply. Ministers have tasked officials with developing a forward work program for MCE with a five year outlook based on the priorities identified. This is to encompass the actions identified in the *Ministerial Council on Energy Forward Work Plan related to the Energy Market and Climate Change Policies*.

Review of Distribution Network Planning and Expansion

Ministers agreed a policy response to the AEMC's final report on its *Review of National Framework for Electricity Distribution Network Planning and Expansion*, which was released on 28 September 2009. Ministers agreed to task the AEMC to provide further advice to the next MCE meeting on the appropriate threshold for the Regulatory Investment Test for distribution businesses. Ministers noted the relevance of the national framework for Electricity Distribution Network Planning and Expansion to the MCE commitment to address barriers to demand side response (DSR) in the energy markets. The implementation of a national framework will be an important next step to addressing barriers to DSR.

COAG Tasking

Ministers noted progress on the feed-in tariff work program required to give effect to the Council of Australian Governments' (COAG) national principles and tasked officials with developing a policy position for consideration by Ministers at their next scheduled meeting around the middle of 2010. Ministers noted that the intention of this work is to lead to greater harmonisation of jurisdictional schemes.

Pricing

Ministers discussed work on a COAG request for advice on expected electricity price rises for residential consumers and agreed to provide an initial report to COAG by the end of 2009. This report will provide a breakdown of components making up historical electricity prices. Ministers also agreed to provide a more comprehensive report to COAG in the first quarter of 2010 which will include discussion of likely key trends in electricity prices over coming years.

Ministers agreed to request the AEMC to commence its scheduled 2010 review of the effectiveness of retail competition in electricity markets in the Australian Capital Territory. To facilitate this, Ministers approved minor amendments to the Statement of Approach (reflecting recent progress and reforms in the energy retail sector) which will be used by the AEMC as guidance in conducting further reviews. These reviews are an important step in fulfilling the intent of the Australian Energy Market Agreement (AEMA) to remove energy price controls in jurisdictions where competition is found to be effective.

National Energy Customer Framework (NECF)

Ministers noted that SCO released the Second Exposure Draft of the NECF for consultation on 27 November 2009. To provide greater certainty to stakeholders on the NECF introduction, Ministers agreed that jurisdictions will introduce the NECF progressively between July 2011 and July 2013, noting that some transitional arrangements will be required and Western Australia currently has no commitment to the NECF. Implementation is still expected to be on an incremental basis with jurisdictions noting it may take longer before they apply the entire Framework. Ministers previously proposed at the 10 July 2009 MCE meeting that the NECF legislative package be introduced into the South Australian Parliament in the Spring Session of 2010.

Security and Reliability

Ministers, noting the importance of having robust Retailer of Last Resort (RoLR) schemes in place, provided updates on current jurisdictional RoLR schemes given the absence of a national scheme until the NECF is implemented. The approach to a national RoLR scheme is currently being finalised as part of the NECF package.

Smart Meters

Ministers noted that the smart meter provisions in the National Electricity Law, which support smart meter rollouts and trials, passed through the South Australian parliament in October 2009.

Ministers welcomed progress of the National Stakeholder Steering Committee for smart metering in developing further elements of the national framework for smart metering.

Demand Side Participation

Ministers noted the upcoming release of the Stage 2 Final Report of the AEMC's Review of Demand Side Participation and look forward to working closely with the AEMC to further progress this important work stream. Ministers also noted that a number of demand side issues are being progressed in other work programs, including the development of a National Framework for Electricity Distribution Network Planning and Expansion.

National Strategy for Energy Efficiency

Ministers noted that work on delivery of the National Strategy on Energy Efficiency agreed by COAG on 2 July 2009 has commenced and that the MCE has responsibility for delivery of

approximately half of the measures identified in the Strategy. Ministers welcomed the Strategy's increased focus on the delivery of energy efficiency outcomes as a significant contribution to both economic and climate change mitigation outcomes.

Energy Technical and Safety Regulation

Ministers welcomed the Energy Technical and Safety Harmonisation Enhancement Plan developed by the Energy Technical and Safety Leaders Group (Leaders Group). Ministers accepted in principle the Leaders Group's recommendations as they apply to MCE Ministers' portfolio responsibilities and agreed, as a matter of priority, to work with related portfolio Ministers within their jurisdictions to progress the proposed Intergovernmental Agreement. The intention is to facilitate greater harmonisation in technical and safety regulation in the energy supply industry. Ministers thanked the Leaders Group for its time and effort in delivering this important proposal to governments. Ministers are determined to maintain the momentum set by the Leaders Group in implementing this important reform.

Energy Security and vital infrastructure

Conscious of the critical importance of energy security, Ministers reiterated the importance of appropriate penalties to deter protest activities designed to interrupt operations at critical infrastructure sites.

Key Challenges

Ministers noted that the key challenges facing the MCE are to maintain energy supply reliability, security and affordability in light of the importance of maintaining security of supply during extreme weather events and as we transition to a low-emissions economy.