

MINISTERIAL COUNCIL ON ENERGY

Communiqué

Sydney, 1 August 2003

The Ministerial Council on Energy (MCE) held its fifth meeting in Sydney on Friday, 1 August 2003. The meeting was chaired by the Hon Joe Hockey MP, acting Commonwealth Minister for Industry, Tourism and Resources. Energy Ministers from the State and Territory governments participated in the meeting.

The major business of the Council was further consideration of the strategy for future energy market reform in Australia. The MCE has identified six areas for reform and agreed a number of specific initiatives with timelines. This has resulted in a comprehensive package of recommendations that will now be considered by the Council of Australian Governments (CoAG).

The objectives for each area of reform, and key recommendations, are outlined below.

1. Governance of Energy Markets

To strengthen the quality, timeliness and national character of governance of the energy markets, and improve the climate for investment, the MCE recommends:

- The MCE subsume the National Electricity Market (NEM) Ministers Forum on 1 July 2004, establishing a single energy market governance body. Transition measures to include:
 - Commonwealth and Tasmania to immediately join the NEMMF as full members;
 - WA and NT to participate in the NEMMF as observers.
- A national legislative framework be agreed, and developed on a collaborative basis between the Commonwealth, States and Territories, under a new inter-governmental agreement.

2. Economic Regulation

To streamline and improve the quality of economic regulation across energy markets, lower the cost and complexity of regulation facing investors, enhance regulatory certainty and lower barriers to competition, the MCE recommends:

- Two new statutory commissions be established on 1 July 2004, funded by an industry levy:
 - Australian Energy Market Commission (AEMC), with responsibility for rule-making and market development;
 - Australian Energy Regulator (AER), with responsibility for market regulation.
- The new commissions initially be responsible for electricity wholesale and transmission in the connected (NEM) jurisdictions, extended in 2005 to include gas transmission for all other than WA (in accordance with the *CoAG Natural Gas Pipeline Access Agreement of 1997*). Provision to be made for WA and NT to join for electricity, and WA for gas under the AER, by agreement.

- With the establishment of the two new bodies, the National Electricity Code Administrator (NECA) to be abolished.
- The ACCC retain responsibility for competition regulation under Part IV of the *Trade Practices Act (TPA)*, and for competition-related code-change authorisations under Part VII.
- Agreement in-principle to development of a national approach to energy access under the *TPA*, covering electricity and gas transmission and distribution, to be considered by the MCE in 2004. Streamlined procedures for ACCC approvals and acceptance of access-related code changes under Part IIIA of the *TPA* to be developed and agreed by the MCE. As currently provided for, the Federal Treasurer will consider any proposal to certify the NEM as an effective state-based access regime (similar to gas).
- Agreement to the objective of an agreed national regulatory framework for distribution and retailing (other than retail pricing) under the AER, for implementation in 2006. The extent of transfers of regulatory functions, other than retail pricing, to the AER in 2006 to be considered by CoAG.
- The new regulatory arrangements to provide for consultation and cooperation between the new bodies and the ACCC, and to avoid the duplication of regulatory processes. One AER Commissioner to be an ACCC Commissioner, with the others (including the Chair) appointed by the MCE.

3. Electricity Transmission

To improve the planning and development of electricity transmission networks and create a stable framework for efficient investment in new (including distributed) generation and transmission capacity, the MCE has agreed that a 'national transmission network review' be developed in 2004. The purpose is to facilitate new inter-connector developments on a robust and transparent basis.

The MCE also recommends:

- Comprehensive assessment of a national transmission planning function for cross-border transmission, with last-resort power of direction, to be undertaken as part of the NEM transmission review (next point also refers).
- Transmission institutional and regulatory aspects be reviewed by the NEMMF in 2003. Ministers in 2004 to make decisions in respect of the NEM on:
 - the need for, and scope of, a new national transmission planning mechanism;
 - amendments to the regulatory regime, including the regulatory test and scope for asset optimisation;
 - the future arrangements for defining the boundaries of market regions in the NEM;
 - improvements to inter-regional financial trading arrangements;
 - incentives to maximise transmission availability and capacity;
 - the nature of regulation applying to new inter-connectors.

4. User Participation

To enhance the participation of energy users in the markets, including through demand side management and the further introduction of retail competition, and increase the value of energy services to households and business, the MCE recommends:

- In all jurisdictions where full retail competition is operating, each jurisdiction align their retail price caps with costs, and periodically review the need for price caps.
- Examination of options for a demand-side response pool in the NEM, and consideration of the costs and benefits of introducing interval metering. Outcomes to be considered in 2004.

5. Natural Gas Penetration

The MCE noted the national importance of gas supply in the national energy framework. To further increase the penetration of natural gas, lower energy costs and improve energy services, particularly in regional Australia, and reduce greenhouse emissions, the MCE:

- Welcomes the Productivity Commission review of the National Gas Access Regime, and will be responding to the recommendations in 2004.
- Agrees in principle to the preclusion of future state exemptions from joint marketing provisions. However the MCE notes that this proposal is still being considered by the Ministerial Council on Mineral and Petroleum Resources (MCMPR).
- Supports review of the treatment of licensed unproduced areas and of third party access to upstream facilities by the MCMPR.

6. Greenhouse Emissions

To address greenhouse emissions from the energy sector, in the light of concerns about climate change and the need for a stable long-term framework for investment in energy supplies, the MCE:

- Will work closely with the CoAG High Level Group on Greenhouse to address greenhouse gas emissions from the energy sector on a national basis.

Following consideration of these recommendations by CoAG, the MCE will implement a comprehensive workplan involving the State, Territory and Commonwealth Governments.

The next meeting of the Ministerial Council on Energy is scheduled for November 2003 in Perth.

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