

# MINISTERIAL COUNCIL ON ENERGY

## Communiqué

Sydney, 27 October 2006

Australian Government, State and Territory Energy Ministers met in Sydney on 27 October 2006 for the 12<sup>th</sup> Meeting of the Ministerial Council on Energy. The meeting was chaired by the Hon Ian Macfarlane MP, Australian Government Minister for Industry, Tourism and Resources. Ministers discussed a number of issues of national importance for the Australian energy market.

### **2006 Legislative Package**

MCE Ministers noted that a significant milestone for its energy market reform program would be reached within the next two weeks with the release by the Standing Committee of Officials (SCO) of the exposure draft of the National Gas Law (NGL). Release of the exposure draft of amendments to the National Electricity Law (NEL), and an exposure draft of legislative amendments to implement long-term consumer advocacy arrangements, will also occur in November 2006. The packages will include in particular the completion of the transfer of economic regulation of transmission and distribution in the electricity and gas sectors to the new national governance arrangements. The MCE has also agreed that this package will include some minor amendments to the rule change process in the NEL to assist the Australian Energy Market Commission (AEMC) manage their workload and consolidate like rule change applications. This will also be replicated in the NGL. A six week consultation period will be undertaken for submissions on each package.

Exposure drafts of the National Gas Rules (NGR) are also expected to be released by the SCO in mid to late November 2006, followed by amendments to National Electricity Rules (NER) in early 2007. It is expected the NGL and the amendments to the NEL will be introduced to the South Australian Parliament in early to mid 2007.

To ensure that the Australian Energy Market Agreement (AEMA) obligations are met, MCE noted that the Commonwealth and all States and Territories will need to pass implementing legislation or Application Acts enabling the National Gas Law (NGL), and conferring relevant gas and electricity powers on the Australian Energy Market Commission (AEMC) and Australian Energy Regulator (AER) for the gas regime, by 30 June 2007. Consequential changes to jurisdictional energy legislation to complete the transfer of economic regulation of distribution and transmission networks to the national framework will also need to be made by 30 June 2007.

Following feedback from stakeholders, Ministers also finalised the criteria which will form the basis of future AEMC/Economic Regulation Authority (ERA) of Western Australia assessments into the effectiveness of competition in jurisdictional retail energy markets. The effective competition criteria can be found on the MCE web site [www.mce.gov.au](http://www.mce.gov.au).

### **2007 Legislative Package**

The MCE also noted progress on the legislative package for 2007 that will give effect to the transfer of regulation of distribution (non-economic) and retail (non-price) functions to the AER and AEMC. A stakeholder reference group of industry, users and regulators is being established to comment on the recommendations for the national framework for distribution (non-economic) and retail functions. Retail price control, where required, will be retained by the States and Territories unless they choose to transfer such arrangements to the AER and the AEMC.

## Gas Market Developments

The MCE aims for a competitive, reliable and secure natural gas market delivering increased transparency, promoting further efficient investment in gas infrastructure and providing efficient management of supply and demand interruptions. To achieve this objective the MCE sought the input of an industry-led Gas Market Leaders Group (GMLG) to prepare a *Gas Market Development Plan*.

The MCE considered the recommendations in the *Gas Market Development Plan* prepared by the GMLG. The MCE agreed to an action plan which is dependent on the continued support and high level participation from industry participants. Ministers agreed to:

- Establishment of a Bulletin Board (BB) to provide a transparent, real time and independent information to gas market participants and governments on the status of natural gas supplies around the country (noting that this would implement the information provision and emergency management requirements of the National Gas Emergency Response Protocol being managed by MCE's National Gas Emergency Response Advisory Committee (NGERAC));
- Development of the design of a Short Term Trading Market (STTM), which would provide a mandatory price-based balancing mechanism for wholesale gas trading, for subsequent MCE consideration as the next phase of gas market reform; and
- Reconvene the GMLG to continue the industry-led approach to gas market development by overseeing the progression of the BB and design work on the STTM, in consultation with the SCO.

The MCE has also directed SCO to develop advice, for MCE consideration, on the GMLG proposal to form a national Gas Market Operator (GMO) to administer the BB and STTM, including:

- the appropriate form of funding and governance arrangements; and
- whether to integrate the proposed GMO with the National Electricity Market Management Company.

SCO will ensure that the GMLG will be consulted in the preparation of this advice.

## National Gas Emergency Response

Following extensive work with gas market participants, MCE noted the detailed arrangements for implementing the MCE National Gas Emergency Response Protocol in the event of natural gas supply shortages affecting interconnected jurisdictions.

The NGERAC will put in place the following arrangements:

- a communications protocol to ensure all relevant parties are informed in a timely and effective manner of emerging major inter-jurisdictional natural gas shortages;
- a central database of baseline industry information relevant to the analysis of natural gas shortages and relevant commercial responses;
- the establishment of an expert analytical resource for NGERAC using the resources of the Victorian Gas Market Operator and the gas retail market administrators of New South Wales, the ACT, South Australia and Western Australia;
- the development of potential gas emergency scenarios to assist in emergency preparedness and analysis; and
- the scheduling of practical emergency simulation activities to increase jurisdictional readiness in the event of major inter-jurisdictional gas shortages.

### **Long Term Domestic Gas Supply**

Ministers also recognised the increasing importance of gas as a domestic energy source and as an export commodity. Increasing demand for gas in the domestic market and the rapid growth of the LNG export market have made the future demand and supply of gas a priority issue for both the MCE and the Ministerial Council on Mineral and Petroleum Resources (MCMPR).

The MCE has agreed to participate in a joint working group with MCMPR to further examine how domestic gas demand might be met in the light of rising global demand for LNG and the accelerated development of a number of LNG projects. The joint working group will consider issues surrounding domestic gas supplies for existing and future markets, including new gas industries and specifically addressing the issue of balancing the development of resources for export with the supply of domestic natural gas for Australia's long term needs.

### **Wind Policy**

Over the last few years the amount of non-scheduled generation, such as wind, has increased significantly. This has serious implications for the functioning of the National Electricity Market (NEM), as situations could potentially arise where the variability in output means that the NEM central dispatch process could not prevent network operational limits being infringed, by controlling the output of scheduled generators alone. MCE has requested NEMMCO to progress the design of specific procedures (semi-dispatch model) to apply to wind farms, as part of the development of a suitable mechanism to integrate wind farms into the market dispatch process. Ministers noted that NEMMCO is expected to make its recommendations within the next month.

### **National Framework for Energy Efficiency**

Ministers considered the future development of the National Framework for Energy Efficiency (NFEE) and noted the significant progress and results achieved in the initial NFEE implementation period.

Assessment of the NFEE measures implemented to date demonstrates clear progress towards achieving the goals set out in the December 2004 MCE Communiqué. Estimates of the impact in 2015 of the Appliance and Equipment minimum energy performance standards, Energy Efficiency Opportunities and commercial and residential building code regulation programs which commenced implementation between July 2004 and September 2006 show savings in 2015 of approximately 42 PJ of energy, 7.8 Mt CO<sub>2</sub>-e and \$380 million.

MCE agreed to further work involving the preparation of a detailed business case, for MCE consideration by May 2007, outlining new energy efficiency measures which deliver net public benefits, including low cost greenhouse abatement measures that do not exceed the cost of alternate measures being undertaken across the economy. MCE recognised that, while significant progress had been made to date in the improvement of energy efficiency under NFEE, further achievements are likely to require continued strong commitment by governments. The next stage of NFEE implementation may include measures that go beyond those used so far in pursuing the adoption of cost-effective energy efficiency and greenhouse abatement measures.

### **Presentations to MCE**

Ministers received a presentation from Mr Bill Scales, Chair, COAG Energy Reform Implementation Group (ERIG), on ERIG's draft report which is due for release in November. Dr John Tamblyn, AEMC Chair, provided Ministers with a status report on the AEMC work program and organisational issues. Mr Steve Edwell, AER Chair, provided a status report on the AER work program and its plans for taking over functions from State regulators.

**Working in Tandem with COAG**

Ministers reviewed progress against the initiatives set for the MCE by the Council of Australian Governments (COAG) at its meeting on 10 February 2006. These initiatives include pursuing a progressive roll out of electricity smart meters where benefits outweigh costs taking into account the different market circumstances in each state and territory; implementing a comprehensive and enhanced work program to establish effective demand side response mechanisms in the electricity market; and ensuring the separation of generation and transmission activities under the NEL.

Ministers agreed on a policy framework for pursuing a progressive roll out of smart meters, including an initial statement of functionality and a broad timeline for development of the initiative. Final and detailed policy decisions will reflect a cost-benefit analysis managed by MCE and stakeholder consultation. Further analysis of jurisdictional markets to identify implementation costs and benefits, and consultation with all stakeholders, will now commence.

**Climate Change**

Ministers noted the progress of energy-related activities under the COAG Plan for Collaborative Action for Climate Change including new legislation for greenhouse and energy reporting by business; a national framework for renewable and low emission technologies; energy efficiency in buildings; and energy technology gaps in low emission technologies. Ministers also noted that the States and Territories have put out a discussion paper 'Possible Design for a National Greenhouse Emission Trading Scheme', and that debate on this paper is encouraged.

Ministers agreed that their next meeting will be in Melbourne in May/June 2007.

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