

MINISTERIAL COUNCIL ON ENERGY

Communiqué

Canberra, June 2008

Australian, State and Territory Government Energy Ministers met in Canberra on 13 June 2008 for the 15th 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, State and Territory Government Ministers with responsibility for national policy and governance of the Australian energy market.

Key Outcomes

- Ministers committed to development of a consistent national framework for smart meters in the National Electricity Market, supporting distributors to be responsible for the roll-out of smart meters. Ministers noted there continue to be some uncertainties about the costs and benefits of smart meters in some jurisdictions and that different staged approaches are being taken to support the further development of smart meters. Smart meters are to be rolled-out in Victoria and NSW, with over 5 million smart meters expected to be deployed before 2017. Queensland and some other states and territories will undertake extensive pilots and business cases prior to a further national review of deployment timelines in 2012.
- Ministers had an extensive discussion on the planned introduction of an Emissions Trading Scheme and agreed that it must be carefully designed to protect the security of Australia's energy supply. Ministers agreed to meet again towards the end of July 2008 to further discuss this matter. Ministers also agreed that the Australian Energy Market Commission (AEMC) will conduct a review of the energy market frameworks in light of the introduction of emissions trading and the renewable energy target.
- The non-executive Board of the Australian Energy Market Operator (AEMO) is to be chosen by a Selection Panel. Ministers agreed to the appointment of Eric Mayne as the ex-officio chairman and Emma Stein and Malcolm Kinnaird as the MCE appointed members of the Selection Panel. The industry appointed members of the Selection Panel are Dr Michael Vertigan AC, and Darryl Somerville. Ministers also agreed that membership of the AEMO will be shared between government and industry, with government holding 60 per cent of the voting entitlements. The membership arrangements are to be subject to review in three years.
- An Energy Technical and Safety Leaders Group will be established to develop proposals for a harmonised approach to energy technical and safety regulation.
- An *Energy Community Service Obligations National Framework* has been developed to guide best practice in the development of energy Community Service Obligations, following a review of current delivery mechanisms.

Agency Reports

Ministers noted reports from the Australian Energy Market Commission, Australian Energy Regulator and National Electricity Market Management Company on current market conditions, work programs and several initiatives being taken forward. Ministers noted that they expected the final AEMC report on the Congestion Management Review to be released shortly.

Energy Market Reform Program

Status report on the gas legislative package

Ministers were pleased to note the impending achievement of a significant milestone in bringing the regulation of gas transmission and distribution pipelines under a single up to date national framework. The National Gas Law is anticipated to complete its passage through the South Australian Parliament in coming days with commencement scheduled for 1 July 2008.

The National Gas Rules, Regulations and State and Territory application acts will come into force on the same date, to enable the regime to function effectively across all jurisdictions except, by agreement, Western Australia. Ministers also noted that the complementary legislation to apply the national gas arrangements in Western Australia is expected to come into force in October 2008, completing the implementation in all jurisdictions.

National Energy Customer Framework

Ministers noted a report from Officials on progress on the energy customer legislative package that will transfer regulation of distribution (non-economic) and retail (non-price) functions (except in WA) to the Australian Energy Regulator (AER) and the Australian Energy Market Commission (AEMC).

Ministers considered the public consultation process associated with the recent release by the MCE Standing Committee of Officials of *A National Framework for Regulating Electricity and Gas (Energy) Distribution and Retail Services to Customers* (the National Energy Customer Framework) will be useful in preparation of an initial exposure draft of the Law and Rules to be released at the end of 2008.

Technical and Safety Regulation

Ministers noted the Commonwealth Government commitment to work with State and Territory Governments and the energy sector to improve the consistency of state-based regulations that apply to the energy sector.

Ministers recognised the importance of energy technical and safety regulation to ensure workers operate within a safe environment and to enable the provision of safe energy services. Ministers also recognised the importance of aligning technical and safety regulation where appropriate to lower the compliance burden for multi-jurisdictional operators and facilitate greater labour mobility and swifter emergency response, especially in the context of skilled labour shortages.

The MCE also noted the work of the energy sector to date in harmonising relevant technical and safety regulations that apply to the energy sector. In recognising this, Ministers agreed to the establishment of an Energy Technical and Safety Leaders Group, comprising technical and safety regulators and representatives of relevant segments of the energy supply chain, to develop proposals for a harmonised approach to energy technical and safety regulation. The Leaders Group will report back to the MCE with an implementation plan at the December MCE meeting. [Terms of Reference](#) for the Leaders Group are available from the MCE website www.mce.gov.au

Community Service Obligation Framework

The Council of Australian Governments (COAG) requested on 13 April 2007 that the MCE review the mechanisms by which energy Community Service Obligations (CSOs) are delivered.

As a result, the MCE has reviewed jurisdictional CSOs and delivery arrangements to inform an *Energy Community Service Obligations National Framework*. This framework is designed to be used by State and Territory Governments as best practice guidelines in developing CSOs but is not binding upon the States and Territories. The framework will be publicly released following its submission to COAG in June 2008.

Merits of adopting national regulatory arrangements in the NT

Ministers noted that the Northern Territory is reviewing the merits of harmonisation with national regulatory arrangements for electricity, as permitted in the Australian Energy Market Agreement, and noted the Consultation Draft Policy Paper which has been released for stakeholder consultation.

COAG Energy Market Decisions

Australian Energy Market Operator

Ministers noted that the establishment of the Australian Energy Market Operator (AEMO) is on track for commencement on 1 July 2009 with significant progress made towards meeting the first major goal of appointing the AEMO Board by August 2008. The Board will play a major role in ensuring a smooth transition to the new arrangements and setting the strategic direction for the national market operator.

A five member Selection Panel has been appointed to select a proposed AEMO Board of Directors, for MCE consideration. In accordance with the MCE agreed implementation plan, the Selection Panel is comprised of an independent *ex officio* chair, two industry-nominated members and two MCE-nominated members. The *ex officio* Chair of the Selection Panel is Mr Eric Mayne, who is currently the Chief Supervision Officer of ASX Market Supervision. The two industry-nominated Selection Panel members are Mr Darryl Sommerville and Dr Michael Vertigan. The two MCE-nominated Selection Panel members are Mr Malcolm Kinnaird and Ms Emma Stein. Appointment of the AEMO Board is expected by August 2008.

Ministers have also agreed to the membership arrangements for AEMO. The membership will comprise a joint arrangement between government and the energy industry. Government will hold 60 per cent of the total voting entitlements of AEMO and industry will hold the remaining 40 per cent. A review of the membership arrangements will be undertaken three years after AEMO commences operation.

Smart Meters

Ministers reviewed a detailed cost-benefit analysis of a national smart meter roll-out and noted a wide range of potential net benefits but that benefits and costs are not certain in all jurisdictions. On this basis, smart meter deployment will continue in Victoria and in NSW, which should result in more than half of all Australian meters being replaced by 2017. Extensive pilots and business cases will also be progressed in most other jurisdictions to confirm benefits, cost and risks. By June 2012, Ministers will consider further deployment timelines in all jurisdictions, based on findings of the pilots at that time.

To maximise the benefits of the roll-out, MCE will develop a consistent national framework for smart meters in the National Electricity Market (which excludes WA) with the obligation for deployment placed on distributors and appropriate cost recovery. This framework will be developed with stakeholders through a co-regulatory process and will be supported by the release of an MCE Statement of Policy Principles.

Financial Markets

Ministers noted progress on work being undertaken to improve the efficiency of energy related financial markets, including reducing prudential costs for electricity market participants. Ministers welcomed the establishment of an expert working group and advice that it had under evaluation the scope for reducing the settlement cycle in the national electricity market and the option of establishing a single central clearing facility for financial and spot market positions. Ministers noted that a rule change was being considered by the Australian Energy Market Commission which would enable positions in the financial market to offset National Electricity Market Management Company Limited (NEMMCO) prudential requirements.

Gas Market Developments

Ministers noted that the gas market Bulletin Board developed by the Gas Market Leaders Group (GMLG) will commence operation on passage of the National Gas Law. The Bulletin Board will operate in all jurisdictions except Western Australia and the Northern Territory, with arrangements in place to allow the Bulletin Board to operate in those jurisdictions in the future. Ministers congratulated the gas industry on its leadership in completing this project, and welcomed the initiative as an important step in improving transparency in the gas market.

Ministers noted that, following endorsement earlier this year of the GMLG's recommendation to establish a gas Short Term Trading Market, work is underway to determine the structural and operational details of the market with expected completion before winter 2010.

The GMLG has also commenced work on the design of a Gas Statement of Opportunities, which will be a source of information to assist gas industry participants and other interested parties in their planning and commercial decisions on investments in infrastructure. This document is expected to be produced by the Australian Energy Market Operator in conjunction with the existing electricity Statement of Opportunities.

Energy Security

Outcomes of Liquid Fuel Vulnerability Study and simulation update

Ministers noted activities undertaken by the National Oil Supplies Emergency Committee (NOSEC), including the Liquid Fuel Vulnerability Assessment and the National Liquid Fuel Emergency Simulation Exercise, *Catalyst 2008*, which will continue to enhance and build Australia's emergency preparedness.

Ministers reaffirmed their commitment to the final element of the simulation exercise, which will be held on 17 June. The support and participation of the jurisdictions and the oil majors in the simulation exercise was also commended. *Catalyst 2008* and the broader work being achieved by NOSEC will provide valuable input to the Commonwealth's National Energy Security Assessment and Australia's broader energy policy objectives.

Climate Change Issues

Industry energy efficiency

Ministers noted a report on potential arrangements for implementing a national framework for mandatory energy efficiency measures for industry, including a consultancy report on *Potential Mandatory Energy Efficiency Investment Requirements – Cost Benefit Analysis of Program Options*. This would mandate the implementation by industry of identified cost effective energy efficiency measures with a three year payback period.

Ministers agreed to defer further work on a national industry mandatory energy efficiency scheme pending the outcome of several reviews currently underway, including the review of complementary measures to a national emissions trading scheme, the Garnaut Climate Change Review and the work of the Council of Australian Governments (COAG) Climate Change and Water Working Group (CCWWG).

Emissions trading scheme and the renewable energy target

Ministers discussed the planned introduction of an Emissions Trading Scheme (ETS) and agreed that it must be carefully designed to protect the security of Australia's energy supply. This issue was also emphasised in the reports from the Australian Energy Market Commission, Australian Energy Regulator, and the National Electricity Market Management Company.

All Ministers agreed that the ETS design will need to ensure that the transition to a low-emissions energy mix achieves real abatement and maintains both investor confidence and energy security. Ministers also noted the importance of measures to assist households, particularly low-income households, to adjust to the impact of carbon prices; and to support the research, development and demonstration of new low-emission technologies, particularly carbon capture and storage.

Ministers agreed to meet after the release of the Commonwealth's Green Paper on ETS design to further consider these issues.

Ministers also agreed to direct the Australian Energy Market Commission (AEMC) to conduct a review of the energy market frameworks to determine whether the frameworks need to be amended to accommodate the introduction of emissions trading and the renewable energy target.

In directing the AEMC to undertake this work, Ministers recognised the importance of engaging with the energy sector in reviewing the energy market frameworks and will request the AEMC to establish an Advisory Committee comprising relevant segments of the energy supply chain.

NFEE Stage II Proposals and Implementation

Ministers confirmed their support for energy efficiency measures as an important contributor to both economic and environmental performance. MCE noted the finalisation of implementation plans for the initiatives in Stage II of the National Framework for Energy Efficiency, as approved at their December 2007 meeting. These initiatives focus on key opportunities for energy efficiency improvements across the residential, commercial and industrial sectors. Implementation of the new energy efficiency measures will be subject to full stakeholder consultation and, as required, Regulatory Impact Statements.

Ministers noted that well-targeted energy efficiency measures are likely to complement the introduction of a national emissions trading scheme and reduce the cost to the economy of emissions reductions. They therefore strongly supported the consideration being given to energy efficiency within the framework of the COAG CCWWG and noted the close co-operation being maintained between the MCE Energy Efficiency Working Group and the COAG process.

Carbon Capture and Storage

Ministers welcomed the release on 17 May 2008 of the Commonwealth's exposure draft for legislation to provide access and tenure for injection and storage of greenhouse gases in offshore Commonwealth waters via amendments to the *Offshore Petroleum Act 2006* (OPA). Ministers noted that the draft legislation is the subject of an inquiry by the House of Representatives Committee on Primary Industries and Resources and that the Committee is seeking submissions by 30 June 2008.

Ministers also noted that a response to the report by the House of Representatives Standing Committee on Science and Innovation *Between a Rock and a Hard Place: the Science of Geosequestration* will be finalised following consideration of the OPA amendments.

The MCE noted that the first meeting of the Ministerial Council on Mineral and Petroleum Resources (MCMPR) Carbon Dioxide Capture and Geological Storage (CCS) Working Group was held on 14 February 2008. Ministers look forward to the report to be prepared by the CCS Working Group on the scope for a national CCS framework and the feasibility of common user pipelines. The MCE also looks forward to the outcomes from the MCMPR-Environment Protection and Heritage Council (EPHC) Joint Officials Working Group which is developing nationally consistent guidelines for the environmental assessment of CCS projects.

Governance

MCE Review

Acknowledging the Council of Australian Governments (COAG) directive that each Ministerial Council should regularly review the efficiency of its administrative arrangements, MCE agreed Terms of Reference for a review of Council and its Working Groups to be completed by December 2008. Ministers directed that the review should be a forward-looking, strategic study to facilitate implementation of the energy policy agenda and decision-making by the MCE that will also consider whether MCE is meeting its objectives as set by COAG in 2001. Ministers noted that outcomes of the review will inform development of the MCE Strategic Plan.

Ministers agreed that their next meetings will be in Melbourne in late July, then South Australia in December 2008.

Ends