

MEDIA RELEASE

20 December 2002

**ENERGY MARKET REVIEW FINAL REPORT -
BILLIONS AVAILABLE FROM FURTHER REFORM**

The Hon Warwick Parer, Chair of the Council of Australian Governments' Independent Review of Energy Market Directions, today released the Review's final report: "Towards a Truly National and Efficient Energy Market".

Mr Parer said "Our final report confirms the directions set out in the Review's November 2002 draft report. While the energy reforms of the last decade have been beneficial, serious deficiencies remain. The final reports sets out the important steps that Australian governments need to take now to achieve a truly national and efficient energy market."

The final report incorporates the outcome of economic modelling of the impacts on the Australian economy of the Review recommendations.

When compared to what would otherwise happen, ACIL Tasman estimates that the recommendations would increase real Australian Gross Domestic Product by approximately \$2 billion per annum at 2010 or around 0.5 per cent. Over 5 years, the increase in GDP is worth approximately \$7 billion. A further \$1.3 billion over five years is available from implementing the Review recommendations on greenhouse gas emission reduction.

Mr Parer said: "The estimates of the prospective benefits of reform are sobering. They are indicative of the importance of governments taking the steps that will allow electricity and natural gas markets to move to maturity. They also indicate what can be lost from delay.

The final report has taken into account over 100 additional submissions received in response to the draft report.

“The effort that stakeholders, who ranged from industry associations through to interested individuals, put into meeting the tight timeframe for consultation is further evidence of the importance of energy market reform for Australia. Having considered the additional comments, the Panel’s view is that the direction set out in the draft report is sound. We have, however, made a number of changes and clarifications of detail.

“The Panel reiterates its view that there is a pressing need to achieve competitive national, rather than state-based, markets that are transparent in their operation and provide efficient price signals for suppliers, consumers and investors alike.”

The Energy Market Review proposes that:

- A National Energy Regulator be established to encompass the energy regulation roles of the ACCC, the state regulators, the National Electricity Code Administrator (NECA) and the National Competition Council (NCC).
- The Ministerial Council on Energy be the sole ministerial level decision making body
- Electricity transmission planning and regulation be significantly overhauled to better serve the needs of the market
- The National Electricity Market Management Company (NEMMCO) acquire new responsibilities including facilitating the electricity Code change management process and transmission network planning
- The NSW Government withdraw the Electricity Tariff Equalisation Fund and restructure its generation sector to provide genuine competition in NSW and across the NEM
- All states and territories to enable customer choice of energy supplier, work towards removing retail price caps and mandate the installation of interval (or smart) meters
- NEMMCO to introduce a ‘pay-as-bid’ mechanism for load reduction into dispatch and pool price setting to encourage demand side involvement in the NEM
- A new Gas Advisory and Code Change Committee be established to manage gas pipeline access Code changes and advise Ministers on gas policy matters
- New natural gas transmission pipelines to be able to opt for a 15 year economic regulation free period, subject to conditions
- Other natural gas pipelines covered by the gas pipeline access Code to be provided with much greater certainty on regulatory treatment
- The array of greenhouse gas emission abatement measures under Commonwealth and state legislation be abolished and replaced with a single, national emissions trading regime.

Mr Parer said “Our proposal for a National Energy Regulator attracted much comment. It is vital that the Regulator be accountable to all governments. Consequently, we recommend that COAG agree on the most appropriate legislative scheme to achieve this end. The Panel does not take a position on where the NER should be organisationally located. Our view is that this is an issue to be agreed by governments when implementing the proposal”.

“Nonetheless, the fundamentals of our National Energy Regulator recommendation remain unchanged: a single Australia-wide electricity and gas regulator, with Commissioners appointed by Ministers of all jurisdictions and a charter that extends to the regulation of distribution and retail functions currently carried out by state and territory based regulators.”

In response to stakeholder comment, the final report incorporates a new recommendation that a new statutory end user and industry committee drive a streamlined process for changes to the National Electricity Code, with analytical and administrative support from NEMMCO.

The Panel has also taken account of concerns expressed about the potential consumer effects of the removal of price caps. Mr Parer said “The market-distorting ETEF in NSW and the Queensland BPA should be removed immediately. We recognise, however, the political sensitivity of removing retail price caps too quickly. We now consider a transition period not exceeding three years for the removal of these maximum pricing arrangements is appropriate.”

The Panel’s recommendations on a move to emissions trading to achieve greenhouse gas abatement attracted considerable comment.

Mr Parer said: “The Panel’s recommendation remains that the Mandatory Renewable Electricity Target and other schemes should cease to operate once an announcement has been made on an agreement to implement emissions trading. We recommend, however, that investments entered into in response to existing schemes continue to receive an equivalent subsidy upon commencement of emissions trading.”

“Uncertainty about the way forward, in fact, was a major theme in stakeholder comments on the draft report. The final report provides views on the sequencing of reforms, but implementation is clearly a matter for the Council of Australian Governments. It is evident, however, that Australia

now requires action within the shortest possible timeframe. Against this background, we commend our report to Australian governments.”

The final report is available from the Internet at: www.energymarketreview.org.

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