

06- SG
C.C. JP

MCE

RECEIVED

28 DEC 2011

Ministerial Council on Energy

CHAIR

The Hon Martin Ferguson AM MP
Minister for Resources and Energy

Telephone: (02) 6277 7930 Facsimile: (02) 6273 0434

20 DEC 2011

B11/2261

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce 

I am writing to you regarding the Australian Energy Market Commission's (AEMC) reporting on trends in residential electricity prices.

On behalf of Energy Ministers I wish to thank and commend the AEMC on the delivery of its latest report '*Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014*'. The report provides a valuable information source on possible trends in residential electricity prices across Australia and the causal factors behind these trends.

Acknowledging the benefits of the AEMC's reporting in better informing public debate on electricity price movements and associated drivers, Energy Ministers agreed at our meeting of 9 December 2011 to formally task the AEMC with this reporting on an ongoing basis. It was also agreed that the AEMC will automatically publish these reports annually.

The Ministerial Council on Energy (MCE) makes this request pursuant to section 6(b) of the *Australian Energy Market Commission Establishment Act 2004*.

Please find attached a Terms of Reference to guide the AEMC on this tasking.

The MCE looks forward to continuing to work with the AEMC on this and other important energy market related matters.

Yours sincerely



Martin Ferguson

Enc

MCE Secretariat

GPO Box 1564
CANBERRA ACT 2601
Telephone: (02) 6213 7789 Facsimile: (02) 6213 6689
E-mail: MCE@ret.gov.au
Web Site: www.mce.gov.au

MCE Chair

The Hon Martin Ferguson AM MP
Chair - Ministerial Council on Energy
PO Box 6022
Parliament House
CANBERRA ACT 2600

TERMS OF REFERENCE

AUSTRALIAN ENERGY MARKET COMMISSION (AEMC) REPORTING ON POSSIBLE FUTURE TRENDS IN ELECTRICITY PRICES

BACKGROUND

At its meeting of 30 April 2009, the Council of Australian Governments (COAG) requested that the Ministerial Council on Energy (MCE) report on expected electricity price rises for residential consumers over the ensuing three years by the end of 2009. The MCE subsequently committed to providing further reports to COAG at the end of 2010 and 2011.

The first report of the tasking was provided by the MCE, while the AEMC, at the MCE's request, delivered the remaining two reports to enhance the independence and transparency of the reporting. Following agreement by COAG the AEMC's reports were made publicly available in order to better inform public debate on electricity price rises and drivers.

Acknowledging the public benefit of the AEMC's reporting on electricity prices, Energy Ministers agreed at their meeting of 10 June 2011 to extend this reporting. As such, the Standing Council on Energy and Resources (SCER - which supersedes the MCE) tasked the AEMC with this reporting on an ongoing, annual and publicly available basis commencing from 2012.

PURPOSE

These Terms of Reference (ToR) are intended to guide the AEMC's reporting so that it can provide sound and comprehensive public advice on the factors affecting residential electricity prices and the possible future trends.

REPORTING STRUCTURE AND PROCESS

The AEMC's reporting should estimate possible future retail electricity prices for a representative set of residential customers in each Australian state and territory.

Estimated actual electricity prices paid by these representative residential customers in the financial year immediately preceding the forward estimation period should be used as the basis for estimating prices in the subsequent three financial years. For example, if the AEMC is required to report by the end of 2012, the forward estimation period should cover 2012/13 to 2014/15 with 2011/12 used as the basis for estimation.

Retail electricity prices should be based on regulatory determinations as far as possible and broken down into:

- Wholesale electricity costs;
- Transmission network costs;
- Distribution network costs (including metering costs);
- Retail costs (including margins);
- Costs associated with a carbon price;

- Renewable Energy Target (RET) costs (separating large and small schemes);
- Other costs associated with State, Territory or Australian Government specific policies and programs (e.g. green energy programs and regulatory overheads); and
- Feed-in tariff scheme costs.

Where possible, estimates of retail electricity prices should be disaggregated into the above and other relevant cost components.

The reporting should clearly explain any data limitations and estimation methodologies, noting the different methodologies that jurisdictions use in determining regulated retail prices.

All pricing information should be provided in nominal terms and expressed in cents per kilowatt hour. The accumulated time series data from this reporting should be presented in a consistent and comparable manner.

A national level summary of the above information should also be provided using an appropriate weighted average approach across jurisdictions to determine nationally indicative electricity prices and cost components.

The reporting should include a factual description of the drivers of movement in electricity prices illustrated by the forward estimates for each jurisdiction and at a national level. If possible, analysis and commentary should be provided on the main components underlying any significant price movements in each jurisdiction, with particular attention to the reasons given for large changes in regulated maximum allowable revenues for network businesses. The AEMC should consult with the AER on this aspect of the reporting as appropriate.

The AEMC must consult with jurisdictions during the preparation of its reports including on their methodology, data collection processes and timelines, with a view to maintaining a consistent approach across jurisdictions. This consultation should also ensure that the latest available information, including price determinations, is incorporated in the reporting. As part of this consultation process, the AEMC will release its draft reports to jurisdictions for review and comment.

The AEMC's reports would be released automatically subject to the AEMC providing embargoed copies of its reports to Energy Ministers (through SCER) at least ten business days before publication.

TIMELINES

The AEMC must publicly release its reports by the end of the given reporting year and subject to the provision of embargoed copies of the reports to SCER as stated above.

These ToR will remain in place for the AEMC's reporting on an ongoing basis until such time as directed otherwise by SCER.