



AEMC's Review – implications for energy markets of climate change policy

An introductory overview

25 August 2008

Chairman's Introduction

The Australian Energy Market Commission's role is to maintain energy market rules that promote efficient, safe, secure and reliable supplies for electricity and gas consumers. We do this by making changes to the market rules in consultation with our stakeholders, and by providing advice to the Ministerial Council on Energy.

The planned introduction by the Australian Government of a Carbon Pollution Reduction Scheme (CPRS) will influence a wide range of economic activity. Energy markets will be particularly affected. The energy sector is a major emitter of carbon, with a large proportion of our electricity produced by burning coal. Energy markets will also be affected by other planned new policies, such as the expanded national target for renewable generation.

It is therefore timely, in advance of these new policies being implemented, to review whether frameworks need to be amended to ensure that energy markets continue to protect the interests of consumers in the light of the new commercial incentives these policies will create. We welcome Ministers' request for advice on this matter – and look forward to engaging with our stakeholders on these important issues.



Dr John Tamblyn
Chairman, AEMC

What the AEMC's review is about

Our aim is to understand how new climate change policies will affect Australia's energy markets

The AEMC has been asked by the Ministerial Council on Energy (MCE) to undertake a Review of energy market frameworks to determine whether they should be amended to accommodate the introduction of the Carbon Pollution Reduction Scheme (CPRS) and the 20 per cent Renewable Energy Target (RET).

The Review is to consider both the electricity and gas markets in all states and territories. The outcomes of the Review are to provide advice on what, if any, changes are needed to how energy markets function, including how these changes should be implemented.

Amendments will only be supported if they contribute to the energy market objectives of efficient, safe, secure and reliable supplies in the long term interests of consumers.

Our review will **not** address climate change policy – but will assess the impacts of new initiatives

It is important to understand that the AEMC's review is not a direct input to the Australian Government's processes for developing policy responses to climate change. We will be reviewing the implications of the new policies for the rules governing how energy markets operate, not the merits of the policies themselves.

Because we will be undertaking our Review in parallel with the Australian Government's process for developing policy, we will need to base our analysis, to a degree, on assumptions about the precise form of the final policy. Our assumptions will be based on the best available public information and tested with the proposed Advisory Committee.

What the AEMC has been asked to look at

The Terms of Reference for the review

We are required to assess how implementing the Carbon Pollution Reduction Scheme and expanded Renewable Energy Target will affect the ability of existing energy market frameworks to continue to promote the market objectives. The market objectives relate to the ongoing efficiency, reliability and security of supplies.

Where we identify risks to the attainment of the market objectives, we are required to identify options for changing the energy market frameworks to mitigate those risks. We will pay close regard to the benefits and the costs of change – and only propose options which can be justified as proportionate. In undertaking our review, we will be also be aware of the value, other things equal, of stability and predictability in the regulatory and market regimes.

What are ‘energy market frameworks’?

Energy market frameworks include the Law and Rules governing the national electricity and gas markets. These documents set out the detailed technical and commercial rules governing how the wholesale market operates, and how transmission and distribution networks are regulated.

Energy market frameworks may also include other laws and regulatory instruments influencing how participants in energy markets behave, including state-based instruments to regulate the behaviour of electricity and gas retailers.

Our analysis of risks concerning regulation outside the scope of the Law and Rules governing national electricity and gas markets is likely to be limited to observations for consideration by the relevant authority.

How the review will work

Effective consultation with all stakeholders will be a key input

We are committed to conducting the Review in an open and transparent manner that provides all interested stakeholders with the opportunity to contribute at each stage of the Review process.

We are scheduled to provide our Final Report to Energy Ministers in September 2009. To inform this advice we will publish a series of consultation papers and stakeholders will be able to make written submissions:

Scoping paper	by 30 September 2008
1 st Interim report	by 31 December 2008
2 nd Interim report	by 30 June 2009

We will supplement our consultation documents with bilateral meetings, ad hoc briefing sessions and input of specialist advice. We will also host a public forum following the release of our 1st Interim Report. Stakeholders are strongly encouraged to participate in the process so that all issues can be canvassed and addressed.

We will also establish an Advisory Committee to provide expert input in a structured way

The Ministerial Council on Energy has asked AEMC to establish a stakeholder Advisory Committee. The Advisory Committee will comprise energy market operators and planners, regulators, industry and energy end user groups.

The Advisory Committee, which will be chaired by Dr John Tamblyn, represents a key resource for the AEMC's Commissioners in undertaking this review. We are currently in the process of establishing the Committee so that it meets the Ministerial Council on Energy's requirements and able to provide valuable input to the AEMC. More information about the Advisory Committee will be posted once the membership is finalised.

How this review relates to other AEMC projects

Timetable changes to other projects

There are two specific pieces of current work that will be directly affected by the Ministerial Council on Energy's request for this Review. Both of these pieces of work relate to facilitating the active participation of the demand-side (i.e. customers and large users) – and not just electricity generators and network businesses in the National Electricity Market (NEM).

In late 2007, we initiated a review of demand-side participation (DSP) in the National Electricity Market, in order to identify and remove unnecessary barriers to participation. We also received a Rule change proposal addressing the same issues from the Total Environment Centre. We formed a demand-side participation Reference Group to assist the AEMC. This group will continue to operate and provide advice as required. We had planned to publish our draft report and draft Rule determination in September 2008.

A key impact of the Carbon Pollution Reduction Scheme will be the relative cost of demand-side solutions as compared to supply-side responses (i.e. generating more electricity). As there is a significant overlap in the analysis required. Consequently, we intend to align the timetable for these related pieces of work. While we think this will improve the quality of the overall outcome, unfortunately it also means that there will be a delay to the publication of the draft demand-side participation Report and draft Total Environment Centre Rule determination until December 2008.

Where can I find more information about the Review

For more information about the our review of energy market frameworks in the context of climate change policy please visit www.aemc.gov.au.

Making a submission

There will be a number of stages during the review where we will be inviting written submissions. This will start with the release of the Scoping Paper in September. The email address for submissions is submissions@aemc.gov.au