



Information Bulletin

20th COAG Energy Council Meeting

26 October 2018

Energy Consumers Australia attends, as an observer, the meetings of the [Council of Australian Governments \(COAG\) Energy Council](#) (the Council). The three market institutions – the Australian Energy Market Commission (AEMC), the Australian Energy Regulator (AER) and the Australian Energy Market Operator (AEMO) – also attend as observers.

This Information Bulletin draws on the [communiqué](#) issued by the Council on 26 October 2018 and publicly available information about the matters discussed at the meeting. Extracts from the communiqué are provided in the text boxes below, with accompanying commentary from Energy Consumers Australia against each item in the communiqué.

MINISTERS DISCUSSED THE IMPORTANCE OF BRINGING POWER PRICES DOWN AND REDUCING EMISSIONS WHILE ENSURING THE RELIABILITY OF THE GRID. THE NEW COMMONWEALTH MINISTER FOR ENERGY, AND CHAIR OF THE COAG ENERGY COUNCIL, THE HON ANGUS TAYLOR MP, WAS WELCOMED BY THE COUNCIL. THE COUNCIL ALSO ACKNOWLEDGED THE SIGNIFICANT CONTRIBUTION OF THE PREVIOUS COMMONWEALTH ENERGY MINISTER THE HON JOSH FRYDENBERG MP.

MINISTERS NOTED STATE AND TERRITORIES' SUPPORT FOR AN INTEGRATED NATIONAL APPROACH TO EMISSIONS REDUCTION ACROSS THE ECONOMY.

1. Retailer Reliability Obligation

Ministers agreed that the Energy Security Board will progress development of draft National Electricity Law amendments that would give effect to a Retailer Reliability Obligation, including any further necessary stakeholder engagement. ESB will return to council with a final draft Bill for decision in December 2018.

The Retailer Reliability Obligation builds on the reliability elements of the policy the Energy Security Board developed for the National Energy Guarantee. The Final Detailed Design Paper for the National Energy Guarantee is available [here](#) and the draft bill is available [here](#).

The Retailer Reliability Obligation will ensure enough of the right resources will be available to meet demand in the National Electricity Market (NEM) particularly in regions with limited access to dispatchable generation. If the right investment does not come forward to address forecast supply shortfalls, this would trigger an obligation on electricity retailers to meet their share of peak demand.

In simple terms, the reliability limb of the National Energy Guarantee required retailers to contract enough dispatchable energy (including demand response) to meet their customers' needs. This new requirement would only be activated if the Australian Energy Market Operator (AEMO) forecast a material shortfall in the resources needed to achieve the reliability standard, and Australian Energy Regulator agreed that retailers should be required to show that they were compliant.

The design of the reliability obligation turns on a few key concepts that are referred to in the communiqué:

- 'forecast supply' – AEMO would continue to forecast the demand and supply balance through the Energy Statement of Opportunities (ESOO).

- ‘*their share of peak demand*’ – this is defined in the Final Detailed Design Paper as ‘their [a retailer’s] share of a one in two-year system peak demand at the time of the gap’.¹

This definition means retailers need to have enough dispatchable energy contracted for what can loosely be described as a ‘usual’ level of demand – not the level that might only occur every ten years or more. The intent is to minimise the risk that retailers take an overly conservative approach and ‘over-contract’ which would unnecessarily increase costs for consumers.

- ‘*the right resources*’ – at the highest level in the Final Detailed Design paper this was taken to include both generation and demand response resources that were sufficiently ‘firm’. This concept was not tightly defined and was to be developed through the electricity market rules that would sit under the laws, and through industry practice.²

In addition to helping to keep the power on, the reliability obligation was also expected to increase the level of contracting activity in the wholesale market, and in doing so, reduce the level and volatility of spot prices. The final modelling indicated that this would deliver an affordability benefit for consumers, with the average household bill being \$150 lower under the policy through the 2020s.

Ministers noted the need for the final design of the Retailer Reliability Obligation to ensure South Australia can manage its reliability concerns through transition to the new mechanism and noted Western Australia’s approach to reliability delivered through its reserve capacity mechanism.

The South Australian Government has suggested that the reliability obligation should be an ‘ongoing’ requirement for retailers i.e. not one that would only be activated when AEMO forecast a gap. This was discussed at an EBS forum on 2 July 2018 – the webcast is available [here](#).

The South West Interconnected System of Western Australia (SWIS) differs from the National Electricity Market in that it includes payments for capacity (being available), not just the energy that is generated. For a good overview of the SWIS see AEMO’s website [here](#).

Ministers discussed the ongoing work by market bodies to implement Finkel recommendations on reliability and system security in the NEM. Ministers also asked the ESB to provide a long-term, fit-for-purpose framework to support reliability that could apply from the mid 2020’s as the market transitions. The ESB will report back to Council in December 2018 on a forward work program for endorsement.

The ESB and the market bodies are progressing a number of reliability and system security related [recommendations](#) of the Finkel Review. The best overview of where things are at is the ESB’s annual *Health of the NEM Report* which is published in December of each year. The 2017 report is available [here](#).

There have been a number of significant developments this year which we would expect to be covered in the 2018 Health of the NEM Report and inform the ESB’s assessment of the state of the framework beyond the mid-2020s. These include:

- The AEMC made a [rule change](#) on 21 June 2018 increasing the lead time available for AEMO to procure reserves through the Reliability and Reserve Trader (RERT) mechanism.
- On 26 July 2018 the AEMC published the final report of its [Reliability Frameworks Review](#) which made recommendations about how to manage reliability generally and implement certain Finkel recommendations, including for a demand response mechanism. The Public Interest Advocacy Centre, the Total Environment Centre and the Australia Institute lodged a

¹ See Energy Security Board, [Final Detailed Design of the National Energy Guarantee](#), 1 August 2018, page 36.

² See Energy Security Board, [Final Detailed Design of the National Energy Guarantee](#), 1 August 2018, page 39.

rule change proposal with the AEMC on 31 August 2018 for a wholesale demand response mechanism.

- AEMO published the first Integrated System Plan (ISP) on 17 July 2018 and the AEMC and ESB is now consulting on how the ISP can inform decision-making and investment through the Coordination of Generation and Transmission Investment process. This responds to a request by the Energy Council in August 2018 for the ESB to look at how the Group 1 and 2 projects identified in the ISP can be progressed.

The Australian Energy Regulator is also in the final stages of a review of the guidelines for the Regulatory Investment Test or 'RIT' process, and has made draft decision about how it can be strengthened.

- AEMO published the 2018 Electricity Statement of Opportunities (ESOO) on 23 August 2018. The ESOO provides a ten-year view of demand and supply in the NEM, evaluating risks against the reliability standard.
- The ESB's work to progress the Retailer Reliability Requirement.

2. ACCC's Retail Electricity Pricing Inquiry

Ministers discussed the importance of bringing power prices down, while increasing competition and the need to act on this issue. The Commonwealth advised Ministers of its determination to have a default market offer in relevant jurisdictions, as recommended by the ACCC in the Retail Electricity Pricing Inquiry, in place by 1 July 2019.

Ministers agreed on the need to develop a reference point/comparison rate against which all offers could be measured, for consideration at the December Council meeting. Western Australia, Victoria, Tasmania and the Northern Territory noted that this would not apply in their jurisdictions. Ministers also agreed that the AEMC undertake work on the impacts of the Commonwealth's proposed default tariff on competition issues and customer impacts including price for both standard and market customers in relevant jurisdictions.

The Australian Competition and Consumer Commission (ACCC) made two key recommendations for the way electricity offers are structured and priced:

- Recommendations 30 (see rec. 49 for SME's) – the current 'standing offer' be replaced by a new 'default market offer' based on a price set by the AER; and
- Recommendation 32 (see rec. 50 for SME's) – discounts should be linked to a common 'reference bill amount' set by the AER.

The Commonwealth Minister for Energy made an announcement on 23 October 2018 about progressing work on these recommendations under the banner of a 'price safety net'. A fact sheet on the safety-net is available here.

Energy Consumers Australia's blog on standing offers and the ACCC's recommendations for change is available here.

On 26 October 2018 the Victorian Minister for Energy announced a new default offer as part of its response to the Thwaites Review. As part of this announcement it also indicated that it would be directing the Essential Services Commission to review the Energy Retail Code to ensure contracts are clear and fair.

3. Energy market updates

Ms Audrey Zibelman, Chief Executive Officer, AEMO, briefed Ministers on AEMO's preparations for security of supply in the National Electricity Market this summer. Ministers noted that AEMO have a strong plan in place for summer and noted advice from AEMO that additional measures are required to support future reliability including further transmission and interconnection.

AEMO releases a summer readiness report in late November each year – last year's report is available [here](#). AEMO has published an [overview](#) of its preparations for this summer on its website, which include:

- *Generation availability – maximising possible generation by deferring or accelerating planned maintenance outages.*
- *Transmission network availability and capacity – maximising interconnector availability, and minimising network constraints over the summer period.*
- *Generator fuel availability – ensuring adequacy of fuel supply (coal, gas and diesel) and monitoring of hydro levels over summer. We are conscious of drought conditions impacting parts of Australia and will closely monitor this potential impact on relevant power stations*
- *Reliability and Emergency Reserve Trader (RERT) – where AEMO identifies a potential for reserve shortfalls in any region, procuring additional reserves to meet peak summer demand.*
- *Contingency planning – building on successful emergency exercises and other preparatory activities with key market participants and jurisdictional representatives.*
- *Operational improvements – building on operational improvements made last summer and continuing to enhance core forecasting, training and information flows.*

As agreed by the COAG Energy Council in August, Ministers noted the need for ongoing focus on the Integrated System Plan and ESB will come back to Energy Council in December 2018 with an implementation plan and clear recommendations for action including any rule changes required.

The ESB is working with the AEMC through its [Coordination of Generation and Transmission Investment](#) process to develop an implementation plan for the ISP. The ESB's paper on the issue is available [here](#).

Dr Kerry Schott AO and Ms Clare Savage, Chair and Deputy Chair of the Energy Security Board, briefed Ministers on a draft Strategic Energy Plan, which will provide overlapping guidance on the operation and evolution of energy markets in Australia. The ESB is developing this Plan in behalf of the Council, as recommended by the Finkel Review. Ministers will consider a final draft Plan in December 2018.

The Strategic Energy Plan was recommendation 7.1 of the [Finkel Review](#), and was part of the 'stronger governance' pillar of the Blueprint. The recommendation was informed by strategic planning practice in other parts of the world – in New York State's *Reforming the Energy Vision*, Denmark's *Energy Agreement* and Germany's *Energiewende* (see Box 7.2 of the Finkel Report) – and aimed to support the orderly transition of the sector.

The Strategic Energy Plan as envisaged by the Finkel Review would guide market bodies and the operation and evolution of the NEM and provide a basis for regular progress reporting (Recommendation 7.4).

This work follows the AEMC's [Energy Sector Strategic Priorities](#) review which was completed in 2017.

4. Media

- Minister Taylor - COAG Energy Council agrees to progress reliability obligation (media statement).
- Minister D'Ambrosio – New Victorian Energy Default Offer (media statement).
- Minister van Holst Pellekann – Switch flicked on world leading Home Battery Scheme (media statement).
- Minister Barnett – Energy Security Board Forum (media statement).
- Minister Lynham – Win for Queensland at Energy COAG (media statement).
- Minister Rattenbury – ACT push to keep climate change and emissions reductions on energy agenda (media statement).
- Minister Harwin – States agree on simpler system to potentiality lower electricity prices (news).
- Minister Wyatt – PowerBank trial to revolutionise bulk battery storage in WA homes.