

Information Bulletin

10th COAG Energy Council Meeting

10 April 2017

Energy Consumers Australia attends, as an observer, the meetings of the Council of Australian Governments (COAG) Energy 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 Communique for the recent 10 April 2017 meeting as well as other published information. In recent years, the Energy Council has met face-to-face twice a year. In 2016, however, Ministers agreed to meet more regularly, including via video-conference.

The video-conference meeting on 10 April 2017 was the second for the year. The agenda for the meeting included updates from experts who are progressing work to “mitigate the risk of security, affordability and sustainability issues in Australia’s energy markets”, as well as other matters including the Limited Merits Review (LMR) reforms and National Electricity Market (NEM) governance matters.

Chairman of the Australian Competition and Consumer Commission (ACCC), Mr Rod Sims, discussed the Electricity Supply and Prices Inquiry.

The Prime Minister announced on 27 March 2017 that the Australian Government would be directing the Australian Competition and Consumer Commission (ACCC) to review the retail electricity market. The Prime Minister said in a [media statement](#) that the review would “scrutinise electricity retailer behaviour as well as contracts offered to residential and business customers and ensure consumers benefit from competition in the National Electricity Market.” The [terms of reference](#) for the review are broad, covering:

- the key cost drivers of retail electricity pricing;
- the existence and extent of any entry barriers in retail markets;
- the impact of vertical integration;
- whether there is any behaviour preventing or limiting competition or consumer choice;
- the profitability of electricity retailers and whether these profits are commensurate with the risk retailers face; and
- all wholesale market price, cost and conduct issues relevant to the inquiry.

The ACCC is due to provide a preliminary report to the Australian Government within six months, and a final report by 30 June 2018.

Australia's Chief Scientist, Dr Alan Finkel AO, discussed progress on the Independent Review into the Future Security of the National Electricity Market. Having observed energy markets in international jurisdictions, he noted the common presence of strategic planning for the transition to a lower emissions future while preserving energy security and reliability.

Dr Alan Finkel AO and Mr Terry Effeney recently returned from a tour of European and North American energy markets, where they met with policy makers, regulators and market participants.

The Finkel Review received more than [360 submissions](#) responding to the [Preliminary Report](#) that was published on 8 December 2016. In a [media statement](#), Dr Finkel said the “breadth and depth of [the] submissions is a mark of the community’s determination to help shape the future of our electricity sector.”

The Finkel Review is expected to deliver its final report to COAG Leaders by July 2017.

Dr Michael Vertigan AC updated Ministers on the Examination of the Current Test of Gas Pipelines.

Dr Vertigan is heading-up the Gas Market Reform Group (GMRG) which is leading the implementation of 15 reforms agreed by Ministers at the August 2016 Energy Council meeting following reviews of various aspects of the gas market by the ACCC and the Australian Energy Market Commission (AEMC).

The GMRG is currently working up a set of new measures to increase the level of transparency around pipeline access pricing and contract terms and to develop a commercial arbitration and dispute resolution framework. These measures were recommended by Dr Vertigan in a report, [Examination of the current test for the regulation of gas pipelines](#), published in December 2016.

A summary of the GMRG workstreams is available on its [website](#).

Chief Executive Officer of the Australian Energy Market Operator, Ms Audrey Zibelman, briefed Ministers on the closure of Hazelwood power station, confirming the closure will not compromise the security of the National Electricity Market next summer.

AEMO issued a [media statement](#) on 23 March 2017, “AEMO reaffirms its position on energy security”, where it stated:

“In response to some media reports, AEMO confirms its previous advice that the closure of Hazelwood will not compromise the security of the Victoria electricity system nor the broader National Electricity Market (NEM) next summer. As noted in earlier AEMO reports, there are power generation resources available in Victoria and the NEM that currently are not operating at all or to their full capacity that can be made available to replace the power currently supplied by Hazelwood. AEMO's market analysis reveals these resources exceed the 1600 megawatts (MW) capacity of Hazelwood. AEMO has the necessary authority to ensure the security of the system and over the next several months will work with market participants in gas and electricity markets to ensure all necessary plans are in place to secure summer reliability.”

Ministers were updated on progress of the National Gas Reform Taskforce, and the commitments made by LNG producers and gas pipeliners to meet the Australian Energy Market Operator's predicted domestic supply shortfalls from 2018. Ministers also discussed recent announcements about the significant pumped hydro energy storage feasibility study for the Snowy Hydro Scheme.

The Prime Minister, the Minister for Environment and Energy, the Minister for Resources and Northern Australia and the Minister for Innovation, Industry and Science, met with representatives from east coast gas producers on 15 March 2017 to discuss domestic gas supply and pricing. The transcript from the press conference that followed the meeting is available [here](#).

The headline outcome from the meeting was a 'Peak Electricity Demand – Gas Supply Guarantee'. According to the Prime Minister's [media statement](#), gas producers have guaranteed that by next summer, gas will be available to meet peak demand periods in the NEM (such as during heat waves). The Prime Minister emphasised in his press conference that the Australian Government has the ability to control exports to ensure the domestic gas market is well supplied.

The Prime Minister and the east coast gas producers are meeting for a second time on 19 April 2017 to discuss progress on the action plan agreed at the 15 March 2017 meeting.

Ministers were updated on the review by the Climate Change Authority, with advice from the Australian Energy Market Commission, to enhance power system security and to reduce energy prices, consistent with achieving our emissions reduction targets in the Paris Agreement. The report will be provided to the Federal Government on 1 June 2017 and publicly released by 15 June 2017.

On Friday 31 May 2017, the Turnbull Government announced new energy measures, negotiated with the Nick Xenophon Team (NXT), to secure the passage of the Enterprise Tax Package through the Senate. The package comprises:

- work by the Climate Change Authority (CCA) and the Australian Energy Market Commission (AEMC) to develop advice for a 'power affordability and reliability policy';
- a one-off payment of \$75 for singles and \$125 for couples receiving the aged pension, the disability pension or the parenting payment to assist with the rising cost of electricity;
- a range of measures to increase the availability of gas in the domestic market, including the introduction of 'use-it-or-lose-it' arrangements for gas retention leases, a feasibility study into a new gas pipeline from the Northern Territory into South Australia and price transparency measures recommended by the ACCC in its East Coast Inquiry Report; and
- Government support for the development of a solar thermal plant in Port Augusta through a process managed by the Australian Renewable Energy Agency and the Clean Energy Finance Corporation.

Further detail about the package is available in the Senate Hansard from Thursday 30 March 2017 – see [pages 211-219](#).

Ministers were updated on the recent reforms proposed by South Australia. Ministers directed the Senior Committee of Officials to report back to the July meeting of the Energy Council on implications of the reforms for jurisdictions other than South Australia in the National Electricity Market. Ministers also agreed that the review of retention leases will be undertaken through the upstream resources working group of the Energy Council.

The South Australian Premier Jay Weatherill and Minister for Energy Tom Koutsantonis announced the *South Australian Power for South Australians* plan on 14 March 2017. The plan has six elements which the [media statement](#) set out as following (quote):

- “Building Australia’s largest battery to store energy from the wind and sun, part of a new Renewable Technology Fund that supports clean, dispatchable and affordable power
- Building a government-owned 250MW gas-fired power plant to provide emergency back-up power and system stability services for South Australians, in the meantime procuring temporary back-up generation if necessary
- Introducing new Ministerial powers to direct the market to operate in the interests of South Australians
- Incentivising increased gas production to ensure more of our State’s gas is sourced and used in South Australia
- Introducing an Energy Security Target to ensure our power system uses more clean, secure energy generated in South Australia
- Using the Government’s purchasing power through its own electricity contract to attract a new power generator, increasing competition in the market.”

Further information about the Plan is available on a dedicated website for the Plan [here](#).

Limited Merits Review

Ministers discussed the agreement made in December to introduce significant reform elements of the Limited Merits Review regime, agreeing to finalise the changes at the next Energy Council meeting in July.

The COAG Energy Council agreed to a package of reforms to the Limited Merits Review (LMR) framework at its 14 December 2016 meeting. The elements of the package were:

- “Tighten and clarify the grounds for review.
- Higher financial thresholds for leave which apply to individual grounds for review.
- Reviews to be conducted on the papers, rather than through expensive and adversarial oral hearings.
- Reviews to be conducted within a strict timeframe.
- A strengthened requirement for review appellants to demonstrate that overturning the regulator’s decision would not be to the serious detriment of the long-term interests of consumers.
- More flexible arrangements for consumer participation in reviews.
- Introduction of a binding rate-of-return guideline, with relevant elements of the regulator’s decision not subject to merits review.
- Remove opportunities for gaming by limiting the timeframes in which material can be submitted to the regulator.
- Costs of reviews, including those of the AER, to be borne by network businesses.”

The COAG Energy Council will now consider a set of detailed recommendations to implement this package at its July 2017 meeting.

Governance

Ministers agreed the updated Protocol for Appointments to Australian Energy Market Governance Institutions and Panels to, amongst other things, adopt a gender diversity target of 40:40:20. Ministers also agreed to the appointment of Ms Betsy Donaghey as a non-independent casual director to the Australian Energy Market Operator (AEMO) Board for a term of 12 months.

The 40:40:20 diversity target refers to 40% male, 40% female, and 20% of either gender. The 40:40:20 principle is referred to in this statement on the Australian Government Boards [website](#) and discussed [here](#) by the Australian Institute of Company Directors (AICD).

The current members of the AEMO Board as listed [here](#).

Ongoing reforms

Ministers agreed a variety of additional measures to improve outcomes in Australia's energy markets, including a rule change to improve the Natural Gas Services Bulletin Board; terms of reference for a review into the economic regulation of gas pipelines; enhancing protections for consumers of behind the meter services; and amendments to Greenhouse and Energy Minimum Standards determinations to decrease maximum mercury levels in fluorescent lamps.

The National Gas Services Bulletin Board is a live information system showing activity on all major gas production fields, major demand centres and natural gas transmission pipeline systems of South Australia, Victoria, Tasmania, NSW, the ACT and Queensland. The AEMC [East Coast Wholesale Gas Markets and Pipeline Frameworks Review](#) (published May 2016) and the ACCC [East Coast Gas Inquiry](#) (April 2016) provided recommendations about ways to enhance the Gas Bulletin Board to provide greater transparency for market participants.

The COAG Energy Council Energy Market Transformation Project Team published and consulted on three papers on consumer protection issues during 2016: stand-alone systems; consumer protections; and energy (battery) storage. The papers and an explanatory bulletin are available on the COAG Energy Council website [here](#).