

Information Bulletin

12th COAG Energy Council Meeting

14 JULY 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 summarises the outcomes from the Energy Council meeting on 14 July 2017. The Information Bulletin draws on the meeting Communique (italicised text in the boxes) as well as other published information.

While the commentary in the media for the meeting focussed on the Energy Council's deliberations about the Finkel Review Blueprint, Ministers also discussed gas market reform, the Australian Competition and Consumer Commission (ACCC) Inquiry into Electricity Supply and Pricing and measures to support the development of Australia's gas and minerals resources.

1. Communique Summary

Energy Ministers today agreed a series of actions in response to the Final Report of the Independent Review into the Future Security of the National Electricity Market. Ministers reaffirmed their priority for secure, reliable and affordable energy for all Australians while reducing emissions.

The Australian Energy Market Operator presented its latest forecasts for supply and demand across the upcoming months, and the actions it has underway to ensure the secure and reliable delivery of electricity to meet peak demand during next summer.

Ministers discussed the Commonwealth's Australian Domestic Gas Supply Mechanism, which gives the Commonwealth power to impose export controls on companies when there is a domestic gas shortfall, seeking to ensure gas supply for Australian households and businesses.

Mr Rod Sims, Chair of the Australian Competition and Consumer Commission, presented ministers with an update on progress of the Electricity Supply and Prices and the Gas Market Transparency Measures Inquiries, both of which are designed to shine a light on the behaviour of energy suppliers and ensure that energy pricing is fair and transparent.

2. Response to the Independent Review into the Future Security of the NEM

Following the delivery of the Finkel Review to COAG Leaders on 9 June 2017, Energy Ministers have agreed on a timeline to implement 49 of the 50 recommendations, noting Victoria's policies with respect to onshore gas exploration and development. Ministers also noted the significance of the Clean Energy Target recommendation.

Actions taken today by the Energy Council will deliver the key outcomes of increased security, future reliability, rewarding consumers and lower emissions through an orderly transition, system planning and stronger governance.

Preparedness for the upcoming summer

AEMO has put in place a comprehensive set of actions to ensure the system is ready for the coming summer, and is taking further precautions by already acting on the first recommendation of the Finkel Review by contracting an independent audit of its plan to manage the NEM through this period. AEMO is working closely with generators to move planned outages to non-peak demand periods, Transmission Network Service Providers (TNSPs) to reschedule maintenance outages and securing additional resources to meet demand on the hottest days.

The Australian Energy Market Operator (AEMO) published an [Energy Supply Outlook](#) on 15 June 2017, outlining the steps it is taking to manage security of supply leading up to and beyond next summer. These actions cover minimizing risks to fuel supply, coordinating planned generation and transmission outages, facilitating new generation and storage, working with market bodies and governments to secure the grid and promote the efficient operation of the market. The Energy Supply Outlook is the first time AEMO has published an integrated assessment of gas and electricity supply adequacy for eastern and south-eastern Australia.

The Communique refers to the steps AEMO is taking to act on [Recommendation 1.1](#) of the Finkel Review, that:

By end-September 2017, the Australian Energy Market Operator should publish an independent third party review of its:

- *Short-term demand forecast methodology.*
- *FY2018 summer forecast.*
- *Preparedness for the FY2018 summer.*

Establishment of the Energy Security Board

Ministers agreed to establish an Energy Security Board (ESB), a new body comprising an independent Chair, Deputy Chair and the heads of the AEMC, AEMO and the AER. The ESB will provide whole-of-system oversight for energy security and reliability of the NEM and be integral to improving long-term planning. It will report to the Energy Council on a regular basis, including an annual 'Health of the NEM' report, in addition to advising the Energy Council on strategic priorities.

Ministers agreed to further strengthen the role of the ESB, so that where Council is unanimous in its support for ESB recommendations, they are implemented. The role of the ESB will be reviewed after an initial three-year period.

The 'Finkel Blueprint' is based around four 'key outcomes': increased security; future reliability; rewarding consumers; and lower emissions, and three 'key pillars': orderly transition; system planning; and stronger governance. The recommendation (rec. 7.2) that an Energy Security Board be established to coordinate the implementation of the Blueprint is one of 14 recommendations under the 'stronger governance' pillar.

The Finkel Panel set out its vision for the ESB on [page 158](#) of the Final Report:

While not a conventional board in every sense, the ESB would bring the energy market bodies and regulators together to take a whole-of-system view. It will help them speak to governments with one voice and governments speak to them collectively about the NEM. It integrates interlocking responsibilities for overall national energy security. Finally, in implementing the blueprint, it will facilitate better planning, coordination, and action between governments, the Energy Council, and market bodies and regulators. It will lead to clearer reporting and accountability on whole-of-system outcomes. Governments, industry and consumers will all benefit from better and more transparent data about system performance, investment and resource opportunities.

Energy Security Obligations

The introduction of energy security requirements for TNSPs and generators, and updated standards to ensure generators are sufficiently resilient, will make the system better able to withstand disruptions like generator outages or interconnector failures.

The AEMC will ensure that transmission companies have a minimum level of inertia to ensure the system is better equipped to manage rapid electrical changes in the system. New generators will have to provide fast frequency response, which will correct electrical changes in the system and is a step towards the establishment of a market for these types of services.

A rolling review process will update obligations and standards over time to ensure that they remain fit-for-purpose and relevant to changing technologies. AEMO will submit a rule change request to the AEMC in July 2017 regarding connection standards.

The Finkel Panel made 12 recommendations under the security limb of the Blueprint, including (rec. 2.1) that AEMC develop a new set of “Energy Security Obligations”. This package includes new requirements for network operators to provide and maintain a sufficient level of inertia; new generators to have fast frequency capability; and for the Australian Energy Market Commission (AEMC) to review connection standards to address a range of issues including system strength, reactive power and voltage control capabilities.

The AEMC recently published the final report of the System Security Frameworks Review that provides an overview of the work that is already underway to maintain power system security as the generation mix changes. This includes rule changes proposed by the South Australian Government in 2016. As part of this report, the AEMC has published an infographic identifying the interactions between the System Security Frameworks Review and the Finkel recommendations.

Generator Reliability Obligation

New obligations on generators will bring more dispatchable capacity to the market and minimise the system reliability challenges flowing from an increasing share of intermittent renewable energy generation. Requiring generators to guarantee a level of dispatchable capacity before they enter the market will help ensure enough generation capacity is available to meet demand.

Following the outcome of the AEMC’s Reliability Panel Review of the Reliability Standard and Settings, and advice from AEMO on optimal levels of dispatchable capacity, the Energy Council will submit a rule change request to the AEMC to implement the Generator Reliability Obligation.

The Generator Reliability Obligation is Recommendation 3.3 of the Final Report, and explained in detail on page 99:

This will consist of new obligations for VRE generators connecting to the NEM, to ensure reliability is maintained. As part of this measure, the market bodies should undertake regional reliability assessments to determine the minimum dispatchable capacity required for each region to maintain system security and reliability. How much dispatchable generation is required in any region of the NEM depends on a number of factors. Considerations should include:

- *Total VRE generation as a proportion of dispatchable generation.*
- *Strength of the network.*
- *Extent of variation in VRE generation.*
- *Interconnections with other NEM regions.*
- *The load profile.*

- *Wholesale and contract market considerations.*
- *Expected future trends.*

The AEMC Reliability Panel is currently considering submissions on the Issues Paper it published on the Review of the Reliability Standard and Settings (submissions closed on 12 July 2017). The final report is due for publication by 30 April 2018.

Putting downward pressure on prices

Noting progress on the ACCC reviews, the Energy Council agreed to:

- *provide greater transparency on the price and availability of long-term electricity retail contracts for large consumers who are particularly sensitive to reliability and affordability issues*
- *give consumers greater real-time control over their energy consumption data to enable them to negotiate better deals from energy service providers through new rules for competitive metering under the National Energy Productivity Plan*
- *provide governments greater visibility of retail electricity prices, retail margins and factors affecting prices to ensure they have appropriate policies in place to put downward pressure on prices*
- *improve reliability and lower prices in the NEM through effective demand response*
- *AEMO and ARENA have announced plans for a three-year program trialling a new voluntary demand response initiative in South Australia, Victoria and New South Wales, paying consumers who opt-in to temporarily reduce their demand to help avoid load shedding.*
- *The Energy Council will direct the AEMC to recommend a mechanism that facilitates demand response in the wholesale energy market, and ensure any rule change is in place by the summer of 2018-19.*

The Energy Council noted that the Commonwealth will abolish the Limited Merits Review and also agreed to ensure greater certainty by requiring the AER, in consultation with stakeholders, to develop a binding rate of return guideline.

ACCC Electricity Supply and Prices Inquiry

The Australian Competition and Consumer Commission (ACCC) Electricity Supply and Pricing Inquiry commenced on 27 March 2017, following a direction from the Treasurer. The ACCC is due to complete its Inquiry by 30 June 2018, with a preliminary report due by 27 September 2017.

The ACCC published an issues paper for the Inquiry on 31 May 2017, and is holding a series of community forums in Queensland, New South Wales, Victoria and South Australia between 25 July-14 August 2017. Further details about the events and how to register is available on the ACCC website here.

ACCC Gas Market Transparency Measures

The ACCC is also conducting an inquiry to improve the transparency of gas supply in Australia, following a [direction](#) from the Australian Government on 19 April 2017. The scope of this work is broad covering the full supply chain, including producers, transporters and retailers. The Inquiry also has interactions with the reforms being progressed by Dr Michael Vertigan as part of the [Gas Market Reform Group](#) process that Ministers also considered at this Energy Council meeting.

This Inquiry follows work by the [ACCC](#) and the [AEMC](#) on the East Coast Gas Market in 2015-16.

The National Energy Productivity Plan (NEPP)

The NEPP is a package of 34 measures to improve energy productivity by 40 per cent and contribute towards Australia's 2030 emissions reductions target. Key measures include making choice easier for energy consumers (NEPP3), and supporting best practice services for vulnerable consumers (NEPP4). The competitive rollout of digital meters is covered by NEPP23, and is being implemented via an AEMC rule change, with the new arrangements taking effect on 1 December 2017. An information sheet about the introduction of contestable metering is available on the AEMC website [here](#).

The first annual report outlining progress against the NEPP measures was published on 14 December 2017 and is available [here](#).

AEMO-ARENA Demand Response Pilot

AEMO and ARENA are working together on a Demand Response Pilot Program to manage electricity supply during extreme peaks. The pilot, [announced](#) on 19 May 2017, was originally to provide \$22.5 million in funding to procure 100MW of demand response, but it was subsequently expanded to \$37.5 million and 160MW. Applications to [participate](#) in the Pilot close on 17 July 2017. In an interview with [ABC's Lateline](#) on 13 July 2017, Philip Cohn, ARENA, indicated that interest in the Pilot has exceeded expectations, with more than 700MW of demand response potentially available by 1 December 2017.

Limited Merits Review

The Australian Government announced on 20 June 2017 that it would be abolishing the Limited Merits Review regime for network revenue determinations. The Prime Minister's media statement on the decision is available [here](#). The decision was also [discussed](#) in Question Time on the same day – see pages 7030 and 7033.

The decision follows a [review](#) of the LMR Framework in 2016, and a package of measures that the Energy Council was [considering](#) – one of which was to develop a

binding rate of return methodology for key financial variables of the network revenue determination that is being referred to here in this Communique.

Clean Energy Target

Ministers noted that the Commonwealth is carefully considering a Clean Energy Target as recommended by the Finkel Review. As Council did not support tasking the AEMC to develop design options for implementation of a Clean Energy Target, the Council noted that Queensland, Victoria, South Australia and the Australian Capital Territory will separately commission the AEMC to do further work in this area.

Clean Energy Target

The Finkel Panel recommended that a Clean Energy Target (CET) be adopted as one half of the 'Orderly Transition' pillar of the Blueprint, the other being the introduction of a requirement that generators provide at least three years notice before closing (Rec. 3.2).

The Energy Council was not able to reach an agreed position at the meeting on Friday, but as the Communique indicates, Queensland, the Australian Capital Territory, South Australia and Victoria will be commissioning the AEMC to undertake further work on the Clean Energy Target mechanism. [Minister Koutsantonis](#), [Minister D'Ambrosio](#) and [Minister Rattenbury](#), and [Minister Bailey](#) issued media statements on the CET.

3. Gas Market Reform

Australian Domestic Gas Security Mechanism

Ministers discussed the implementation of the Australian Domestic Gas Security Mechanism (ADGSM). The ADGSM will allow the Commonwealth to intervene, if necessary, to ensure an adequate supply of gas is available to the domestic market. The Commonwealth Minister for Resources will rely on assessments from AEMO, the ACCC and industry to determine whether export control measures will be instituted from 1 January 2018. Ministers also noted the Victorian Government's alternative proposal for a national LNG export permit mechanism.

On 27 April 2017, the Australian Government [announced](#) that it would be implementing a mechanism to allow it to intervene in the market to limit gas exports. The Department of Industry, Innovation and Science explains how the Australian Domestic Gas Supply Mechanism will work [here](#). Minister D'Ambrosio set out the Victorian Government's alternative proposal in a [media statement](#) on 14 July 2017.

Pipeline Reforms

Ministers agreed for AEMO to operate the Capacity Trading Platform and the Day-Ahead Auction. Ministers directed the Gas Market Reform Group to ensure the

information disclosure and commercial arbitration rules commence by 1 August 2017. Ministers tasked the Senior Committee of Officials to report by the end of the year on further regulatory options to strengthen pipeline regulation.

Dr Michael Vertigan AC is leading work through the Gas Market Reform Group to design and implement:

- a new information disclosure and commercial arbitration framework for non-scheme pipelines;
- transportation (pipeline and hub services) capacity trading related reforms;
- market transparency reforms; and
- wholesale gas market reforms.

The GMRG is currently consulting on the draft rules for the information disclosure and commercial arbitration framework, with submissions due by 20 July 2017. A good summary of the issues and the process leading up to the development of the rules is available on the GMRG website.

4. Resources measures

Ministers noted that the Commonwealth's \$26 million Gas Acceleration Program (GAP) is designed to deliver new gas to the east coast gas market within three years. GAP will complement jurisdictions' efforts to facilitate gas supply development in the short term. GAP guidelines will be finalised prior to the next COAG Energy Council meeting, with relevant jurisdictions to settle funding agreements shortly thereafter.

Ministers acknowledged progress in implementing the Council's Gas Supply Strategy, noting each jurisdiction's unique circumstances. Ministers agreed that the Working Groups would consult on new collaborative actions to be considered at the Council's next meeting.

Ministers also agreed to publish the National Mineral Exploration Strategy and requested the Retention Lease Review be completed by mid-2018.

The Minister for Resources and Northern Australia, announced the Gas Acceleration Program (GAP) on 14 July 2017. According to the media statement, the Australian Government will provide matched funding up \$6 million to support the development of projects that have a prospect of producing gas for the market within three years.

The COAG Energy Council agreed the Gas Supply Strategy (GSS) at its fourth meeting on 4 December 2015. Four key areas of work are being progressed under the GSS:

- Increased sharing of geoscience and other information about potential resources to improve certainty around gas supply data;
- Strengthening scientific rigour and the sharing of information to improve baseline and monitoring data of unconventional gas resources across the community;
- Harmonising regulatory frameworks to manage risk and address issues; and
- Improving collaboration to promote industry best practice.

5. Stakeholder Roundtable

A Stakeholder Roundtable with around 100 participants from not-for-profit organisations, consumer groups, industry bodies and businesses was held in conjunction with the Council meeting. Participants focused on the importance of the Finkel Review for households and industry, and discussed the consumer implications of implementing the blueprint, including reliability and security, energy prices, and consumer protections.

6. Media comments and coverage

Video of interviews with Ministers Harwin, Koutsantonis, Frydenberg, Bailey and Rattenbury immediately after the Energy Council meeting is available [here](#). A number of Ministers have also issued media statements and offered comments about the meeting.

Minister Frydenberg's [media statement](#).

Minister Baily's [media statement](#).

Minister Koutsantonis' [media statement](#).

Minister D'Ambrosio's [media statement](#).

Minister Rattenbury's [media statement](#).

Minister Wyatt's comments on [Twitter](#).

Treasurer Mansion's comments on [Twitter](#).