



Information Bulletin

**5th Council Meeting
19 August 2016**

ABN: 96 603 931 326

Suite 2, Level 14, 1 Castlereagh Street
Sydney NSW 2000

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

ECA has a major role to play in supporting strong, collegiate evidence based advocacy on national energy market matters of strategic importance or material consequence for energy consumers, in particular for residential and small business consumers. In this context, ECA has prepared this Information Bulletin to share with consumer advocates and other interested groups the key outcomes of the 5th Energy Council meeting held on 19th August 2016.

This bulletin draws on the Meeting Communique the Energy Council publishes after each meeting (available [here](#)).

Meeting Communique (extract)

Ministers recognised there is a need to respond to a paradigm shift in energy markets and respond in a way that maintains the confidence of energy consumers and investors in our energy markets, which must be reliable, affordable and sustainable.

Ministers discussed the transformation of gas and electricity markets and the challenges and opportunities arising from it, including with a range of stakeholders from industry, consumer and regulatory groups. Households have a growing number of choices to manage their energy bills and are embracing renewable energy and new energy products and services. Based on the evidence before it the Energy Council agreed to take action to maintain an affordable and reliable supply of energy to consumers, and manage these changes.

The lead-up to the meeting

This meeting of the Energy Council was originally scheduled for 13 July in Darwin, but was postponed until the election results were confirmed. The decision to reschedule the meeting came at the same time as a debate was intensifying about the volatility on the South Australian wholesale electricity market and the future of the National Electricity Market. While there was no clear agreement between

stakeholders about the causes of the price spikes in South Australia, there was a general consensus that there was a pressing need to more clearly align energy and climate policy following the decision taken by the Energy Council in July 2015 to integrate these policy areas. The Energy and Environment portfolios are now merged with Josh Frydenberg appointed as minister on 19 July.

Events in Tasmania and South Australia, higher wholesale domestic gas prices, Australia's international obligations to reduce emissions together with the need for a national plan to decarbonise the sector formed the backdrop of the meeting on 19 August – one that attracted an almost unprecedented amount of public attention for the body.

The outcomes

The Energy Council took the opportunity of its 5th meeting to identify the significant challenges in energy markets, particularly due to the transitioning of the economy to lower carbon emissions and higher wholesale domestic gas prices. The Energy Council agreed to take actions to deliver better market outcomes for consumers, recognising that, in the words of the Communique, “*business as usual is not an option*”.

The sense that the meeting heralded the beginning of a new approach to national energy policy was something that was emphasised by a number of the Ministers in media statements prior to and following the meeting, for example:

Minister Frydenberg

The COAG Energy Council has agreed to significant reforms and a major new program of work to ensure the energy system remains affordable and reliable as we transition to a lower emissions future ([see full release here](#)).

Minister Groom

In the wake of the challenges faced by South Australia and Tasmania in recent months, it is now more important than ever that we ensure that the National Electricity Market is exactly that: a national market rather than a collection of state-based markets ([see full release here](#)).

Minister Bailey

Today's meeting shows that the COAG Energy Council is on the front foot in responding to these market changes and is focused on ensuring the efficient and safe operation of Australia's energy markets, and ensuring good sustainable outcomes for consumers ([see full release here](#)).

Minister Corbell

What's really positive is that for the first time all Governments have agreed that our national electricity market is changing and we must take action to ensure that it is reliable, affordable and sustainable into the future ([see full release here](#)).

Minister Koutsantonis

Most decisive Energy COAG in years. Climate Policy integration with Energy Policy underway. New Gas reforms top of agenda! Very constructive (From @TKoutsantonisMP 19 August 2016).

Ministers also identified the need for the Energy Council to deal with specific issues, for example:

Minister D'Ambrosio

... I have been concerned about the significant costs involved [with the limited merits review regime] which are ultimately borne by consumers. That is why earlier this month I called on COAG to urgently review this process ([see full release here](#)).

Minister Roberts

The Council's gas market reform strategy strongly aligns with the NSW Government's ongoing commitment to secure gas supplies for households and businesses by establishing a safe and sustainable industry through the NSW Gas Plan (see [full release here](#)).

Key actions from the 19th August 2016 meeting

The Council agreed to:

- a comprehensive gas market reform package, with a newly formed Gas Market Reform Group to be led by Dr Michael Vertigan AC;

Further details on the Energy Council's work on gas prices and supply can be found [here](#). The Energy Council's consideration of this issue was informed by two reports, one by the Australian Energy Market Commission, [East Coast Wholesale Gas Market and Pipeline Frameworks Review](#) (July 2016), and another by the Australian Competition and Consumer Commission, [Inquiry into the East Coast Gas Market](#) (April 2016).

- a review of the Limited Merits Review (LMR) regime, by December 2016;

The rules governing the national energy market allow the networks or some other interested party that has concerns with a decision by the AER to access an appeal process. This is the LMR regime. Further details on the Energy Council's work on LMR can be found [here](#). The LMR regime was amended after a review in 2011-12 by Professor George Yarrow, the Hon. Michael Egan, and Dr John Tamblyn. The Standing Council on Energy and Resources (as the Energy Council was called at the time), subsequently agreed to make a number of [changes](#) to the regime, including to increase the threshold for parties to appeal decisions made by the Australian Energy Regulator (AER). Almost five years on, the question for the review is whether these changes have delivered on the policy intent, and if not what further changes might need to be made to ensure that consumers pay no more than is necessary for network services.

Minister Frydenberg indicated in the [media](#) last week that he is inclined to abolish the merits review avenue altogether, leaving judicial review (i.e. appeals to the Federal Court) as the sole appeal option for networks and other parties, including consumers. This follows very public interventions by [Minister Koutsantonis](#) and [Minister D'Ambrosio](#) in the Australian Competition Tribunal appeals processes in the last month.

- seek the views of stakeholders on three consultation papers;
 - regulatory frameworks for stand-alone systems;
 - registration of energy storage (battery) systems; and
 - consumer protection framework for consumer purchases of distributed generation and storage technologies.

Further details on the Energy Council's work on energy market transformation, including the consultation processes for the three papers, can be found [here](#).

Officials are holding a workshop as part of a consultation on the three papers on 6 September 2016 at the Parkroyal Melbourne Airport. Stakeholders have been invited to make submissions responding to the papers with the COAG Energy Council Secretariat (energycouncil@industry.gov.au) by 4 October 2016. The consultation on the papers will inform discussion papers that will be presented to Ministers at the Energy Council's next meeting in December 2016.

The work program for the Energy Market Transformation Project, which was announced by the Energy Council in December 2015, is organised under four high level objectives: enhanced competition and innovation; empowering consumers; ongoing power system security; efficient investment and operation of electricity infrastructure. Work under each of these headings is being progressed by the AER, AEMO, AEMC, Standards Australia, and by Australian, state and territory government officials (set out table form [here](#)).

In addition, the Energy Council announced:

- progress on the National Energy Productivity Plan (NEPP), in particular measures to improve building standards and compliance, accelerate buildings ratings tools and a \$2 million grant to ECA to build on the work of the Low Income Energy Efficiency Program to make choice easier for consumers;

The NEPP aims to help reduce carbon emissions and help consumers manage energy costs by using energy as efficiently as possible - further details on the NEPP can be found [here](#).

The NEPP was launched in December 2015 by the Energy Council and aims to achieve a 40 per cent improvement in Australia's energy productivity by 2030. The Plan comprises 34 measures under six themes: efficient incentives; empowering consumers; helping business compete; innovation support; competitive modern markets; and consumer protections. Minister Frydenberg issued a media statement about the NEPP following the Energy Council's 19 August meeting that is available [here](#).

ECA issued a media statement (available [here](#)) welcoming the grant to translate the outcomes of LIEEP into benefits for consumers as part of NEPP Measure 3. [LIEEP](#) was a \$100 million Australian Government initiative that funded 20 pilot projects that trialed different approaches to improve the energy efficiency of low income households from July 2011.

- the strengthening of the AEMC's governance and future capacity through agreement to appoint two additional Commissioners and improve the expedited rule change process;

This follows from the Energy Council's December 2015 response to the Review of Governance Arrangements for Australian Energy Markets – further details on the governance review can be found [here](#).

The AEMC currently comprises three commissioners, one being a full-time chair, and the other two serving on a part time basis. The Governance Review recommended that this be expanded up to a total of five, at least three of whom should be full-time. Although the Energy Council noted in its December response to the Government Review that it agreed with recommendations to improve the organisational capability of the market bodies, it did not commit at that time to increase the size of the AEMC.

- the establishment by early 2017 of the *Matt Zema Energy Studies Scholarship* for innovative post-graduate research projects.

Further actions leading up to the December 2016 meeting

The Energy Council has agreed to progress the following work for consideration at its next meeting.

- Officials to provide advice on potential actions that could be taken by the Energy Council to support the implementation of cost-reflective network tariffs, for consideration at the December 2016 meeting. *This is part of the Council's work on market transformation, further information about which can be found [here](#)*
- A review of the regulatory investment test for new transmission assets to ensure that it is fit for purpose given the important role that interconnectors that allow electricity to be moved between states play in supporting energy supply as the generation mix changes. The Senior Committee of Officials (SCO), in consultation with the AER and AEMO, is to report back to the Energy Council before the end of the year. *This is part of the Council's work on market transformation (energy security), further information about which can be found [here](#)*
- The Energy Council previously agreed to develop a national approach to better integrate energy and emissions policies in the interests of consumers (December 2015). The Energy Council has agreed that the work on emissions reductions scenario modelling being undertaken by AEMO and the AEMC should now include consideration of the economic and operational impacts of existing state and territory emission reduction policies. The final report will be provided to the December 2016 meeting. *Further details on the Energy Council's work on energy and carbon policy can be found [here](#)*

Background: about the Council of Australian Governments Energy Council

The Energy Council is one of eight standing councils established by the Council of Australian Governments (COAG) in December 2013 to address priorities of national significance, through intergovernmental collaboration and decision-making.

The Council consists of ministers from the Commonwealth, each state and territory, and New Zealand, with portfolio responsibility for energy and resources. The Energy Council meets twice a year, with further work out of session undertaken as needed.

The work of the Energy Council is guided by its terms of reference, which cover the following broad themes:

1. Overarching responsibility and policy leadership for Australian gas and electricity markets, including the development of energy and climate change mitigation policies to enhance the security and efficiency of the National Electricity Market.
2. Promotion of energy efficiency and energy productivity in Australia.
3. Australian electricity, gas and petroleum product energy security.
4. Cooperation between Commonwealth, state and territory governments.
5. Facilitating the economic and competitive development of Australia's mineral and energy resources.

The details of the Energy Council's term of references can be found at

<http://www.scer.gov.au/document-categories/terms-reference>

Energy Council priorities

The Energy Council currently has the following priorities, each of which has an ongoing associated work program.

1. Australian Gas Markets (<http://www.scer.gov.au/council-priorities/australian-gas-markets>)
2. Empowering Consumers (<http://www.scer.gov.au/council-priorities/empowering-consumers>)
3. Energy and Carbon Policy (<http://www.scer.gov.au/council-priorities/energy-carbon-policy>)
4. Energy Market Transformation (<http://www.scer.gov.au/council-priorities/energy-market-transformation>)
5. Improving Institutional Performance (<http://www.scer.gov.au/council-priorities/improving-market-performance>)

The agenda for each Energy Council meeting consists of items of strategic significance and those items requiring action.

The Energy Council has also followed a practice of holding a Stakeholder Roundtable on the same day it meets, usually just before it moves into the formal meeting. The format is based around a series of short presentations from stakeholders, where they speak to research or a policy issue relevant to the work of the Energy Council. The Stakeholder Roundtable is supported by the COAG Energy Council Secretariat.