



Information Bulletin

Finkel Review

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Energy Consumers Australia has had initial consultations in Canberra on the scope and function of the Finkel Review. The Review is a more substantial exercise than a review of energy security arising from events in South Australia. The review will also examine and advise on the broader issues facing the system due to the increasing penetration of intermittent generation

In furthering Energy Consumers Australia's objective to support strong, collegiate evidence based advocacy on national energy market matters of importance for residential and small business energy consumers, this brief has been prepared to inform advocates on the Finkel Review.

Background to the Review

The Review, to be led by the Commonwealth's Chief Scientist, Dr Alan Finkel, was announced at the extraordinary COAG Energy Council meeting on 7 October 2016. That meeting was called to discuss the issues in South Australia on 28 September during an extreme weather event. The meeting [Communique](#) said of the Review:

Given the critical importance of energy security, reliability and system resilience, the Council agreed that it is timely for a wider independent review to take stock of the current state of the security and reliability of the national electricity market and provide advice to governments on a coordinated, national reform blueprint.

The review will draw together and build on recent and ongoing work streams, including by the Australian Energy Market Operator, the Australian Energy Market Commission, the Australian Energy Regulator and gas market reforms.

It is envisaged a preliminary report will be prepared for the COAG Energy Council in December, before going to the COAG Leaders' Meeting, with a final report early in the new year.

The announcement as part of this meeting, the emphasis on the various reports on the South Australian incident and a seemingly tight timetable could lead to the perception that the Review is restricted to the reliability and security issues highlighted by that incident. However, as the Communique makes clear, the review is seen as a wider process to take stock of the current state of the security, reliability and governance of the NEM and provide advice to governments on a co-ordinated, national reform blueprint.

Since the meeting [a further four members of the Review have been appointed](#):

- Karen Moses, former Origin Energy Chief Financial Officer
- Chloe Munro, Clean Energy Regulator Chief Executive Officer
- Professor Mary O’Kane, NSW Chief Scientist
- Terry Effeneay, former Energex Chief Executive Officer

On 30 October [Federal Minister Josh Frydenberg announced](#) that the International Energy Agency (IEA) will be assisting with the Review.

The assistance of the IEA reflects the significance of the Review, as further identified in the Communique:

In light of this body of work, the Australian Government’s commitment at Paris and the integration of climate and energy policy at the federal level, the blueprint will outline national policy, legislative, governance and rule changes required to maintain the security, reliability, affordability and sustainability of the national electricity market.

Review Purpose and Scope

The [published Terms of Reference](#) specify the Review purpose and scope as:

The purpose of the review is to develop a national reform blueprint to maintain energy security and reliability in the NEM, for consideration by the Council of Australian Governments through its Energy Council.

The review will draw together and build on the analysis and findings of the recent and ongoing work streams, as identified above. It will also consider any other matters and processes that may be relevant to system security and reliability.

The blueprint will outline national policy, legislative and rule changes required to maintain the security, reliability and affordability of the NEM in light of the transition taking place.

Consistent with the National Electricity Objective, the review will examine the costs and benefits, including to consumers and industry, of the options to address any current or future vulnerabilities identified in the NEM.

Energy Consumers Australia’s discussions with advisers and officials in Canberra indicate that this review is being seen as very significant, and it is expected to build on the [Parer review from 2002](#). (The Parer review was undertaken following the 8 June 2001 decision of the COAG Leaders’ Forum.) Emphasis is being placed on all the words of the Parer Review title – *Towards a Truly National and Efficient Energy Market*.

In this context, Energy Consumers Australia will be approaching the Finkel Review as a “once in a decade” review of all energy policy, legislation, regulation and rules, especially as the Review is being conducted against the background of “the Australian Government’s commitment at Paris and the integration of climate and energy policy at the federal level”, as noted in the 7 October Communique.”

More generally the Review can be seen as one of the inputs to the wider consideration of Climate Policy in 2017, which will in turn build the framework for Australia’s future emission reduction targets.

Of special significance is that the Finkel Review is reporting to the COAG Leaders’ Forum, which means it is being seen by the Prime Minister and all Premiers and Chief Ministers as a First Ministers’ issue.

First Ministers have been consistent in their view that climate policy needs to be integrated with energy policy. Attachment 1 highlights that the Australian Energy Markets Agreement (entered into in 2004, when John Howard was Prime Minister) and the Terms of Reference for the COAG Energy Council (issued December 2013, when Tony Abbott was Prime Minister) both included the need for action on emissions reduction as part of the national agenda for coordinated energy policy.

The review of market governance arrangements completed in 2015 noted the high rate of change in energy markets and the existence of a strategic policy deficit. The Finkel Review is explicitly tasked with considering “governance changes” in its remit. It will be open to the Review to make additional recommendations on governance or to make recommendations on the process of adopting the original recommendations.

Review Process

As yet, detail on the review process is unclear, other than the statement in the 7 October Communique concerning timing. The COAG Leaders’ Forum is currently scheduled for 9 [December](#), the week before the next COAG Energy Council meeting. However, Energy Consumers Australia expects that the Energy Council will hold a special meeting (possibly electronically) to consider the initial Finkel report before it is provided to the Leaders’ Forum.

Energy Consumers Australia has participated in one consultation with Dr Finkel hosted by the Australian Industry Group. At that meeting Dr Finkel said he would rather be late than wrong in his final report. He also said the panel would be bringing an “engineering focus” to its task. It is noteworthy that the Review Panel is comprised of by scientific and industry personnel. This is a dramatic contrast to the Parer review where a former politician was assisted by two economists and a former gas and petroleum executive.

He further stated that there were four key issues he thought needed to be addressed:

- How to provide electricity 24/7;
- How to signal for the right investment;
- How to innovate and encourage new technology; and
- How to develop the demand side of the market.

Rosemary Sinclair, Energy Consumers Australia’s Chief Executive Officer, is meeting with Dr Finkel on Thursday this week. At the time of writing we are unsure of the structure of this meeting. One of Energy Consumers Australia’s objectives from this meeting will be to obtain further information about the consultation process that will be followed.

Ms Sinclair also intends to encourage Dr Finkel to conduct consultations in all NEM jurisdictions as the different circumstances need to be well understood in developing a national approach to maintain the security, reliability, affordability and sustainability of the national electricity market while delivering on Australia’s Paris commitments.

Energy Consumers Australia will provide further information following the meeting on Thursday.

ATTACHMENT 1 – Previous First Minister s positions on energy and climate policy

(Underlining or emphasis added)

The [2004 Australian Energy Market Agreement](#) (that followed the Parer review) had as its objective:

2.1 *The objectives of this agreement are:*

- (a) the promotion of the long term interests of consumers with regard to the price, quality and reliability of electricity and gas services; and*
- (b) the establishment of a framework for further reform to:*
 - (i) strengthen the quality, timeliness and national character of governance of the energy markets, to improve the climate of investment;*
 - (ii) streamline and improve the quality of economic regulation across energy markets to lower the cost and complexity of regulation facing investors, enhance regulatory certainty, and lower barriers to competition;*
 - (iii) improve the planning and development of electricity transmission networks, to create a stable framework for efficient investment in new (including distributed) generation and transmission capacity;*
 - (iv) enhance the participation of energy users in the markets including through demand side management and the further introduction of retail competition, to increase the value of energy services to households and businesses;*
 - (v) further increase the penetration of natural gas, to lower energy costs and improve energy services, particularly to regional Australia, and reduce greenhouse emissions;* and Page 7 of 22
 - (vi) address greenhouse emissions from the energy sector, in light of the concerns about climate change and the need for a stable long-term framework for investment in energy supplies.*

The [Terms of Reference given to the COAG Energy Council](#) specified its Scope of Work as:

The Energy Council will provide a forum for collaboration between jurisdictions on matters of national significance requiring joint action by the Commonwealth, state and territory governments, including developing and implementing an integrated and coherent national energy and mineral resources policy.

The Council recognises the synergy between the energy and energy resources sectors where, in many instances they are inextricably linked across the supply chain. Therefore the scope of the Council includes oversight of national cooperation on energy and mineral resources policy.

The Council's work will cover the following broad themes:

- 1. Overarching responsibility and policy leadership for Australian gas and electricity markets, including:*
 - Development of secure, effective and competitive markets;*
 - Promotion of energy affordability and efficiency;*
 - Stimulation of technical and economic efficiency in the supply, distribution and consumption of energy in Australia;*
 - Oversight of governance and regulatory frameworks;*
 - 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, including:*
 - Encouragement of technology innovation.*
- 3. Australian electricity, gas and petroleum product energy security, including:*

- *Development of national liquid fuels and natural gas emergency response policies;*
- *Assessment of long term supply and demand;*
- *Promotion of markets that are resilient to financial, physical and climate change related threats.*

4. Cooperation between Commonwealth, state and territory governments, including:

- *Enhancement of national consistency between regulatory frameworks to reduce costs and improve the operation of the energy and resources sectors;*
- *Research;*
- *Skills and training;*
- *Safety and community engagement;*
- *Addressing outcomes from the Commonwealth's abolition of the carbon tax.*

5. Facilitating the economic and competitive development of Australia's mineral and energy resources, including:

- *Progressing constructive and compatible changes to the basic legislative and policy framework for the sustainable development of mineral and energy resources.*