

COAG Energy Council

Meeting Communique

ADELAIDE / 11 DECEMBER 2014

THE SECOND MEETING OF THE COAG ENERGY COUNCIL WAS HELD TODAY IN ADELAIDE. ITS FOCUS WAS ON THE MAJOR CHALLENGES FACING ENERGY MARKETS AND RESOURCE DEVELOPMENT.

Under a new format designed to improve the strategic focus of the Council, Ministers heard from stakeholders and key experts on the challenges and opportunities facing the nation's resources and energy sectors.

The discussion considered emerging challenges under six themes:

- Generation – reducing investment uncertainty
- Networks – securing benefits of technological change
- Retail – enhancing a national approach
- Energy productivity – improving energy use decisions
- Natural gas – accelerating market transformation
- Resources – productivity and development.

A summary of those discussions is provided below. The Council will align its strategic priorities and work program around these themes and intends to publish regular reports on its progress.

Emerging Challenges for the Energy and Resources Sectors

1. Generation – reducing investment uncertainty

The energy only market design of the National Electricity Market (NEM) has proven to be robust and efficient, and the Council does not support radical change to the market's design. Nor does it support assistance to generators to exit the market.

The Council considers it is for the market to provide signals for investment and de-investment for generation, and opposes the transferral of the costs of retiring assets onto consumers or taxpayers. The Council will consider whether there are any material barriers to orderly exit and task the Australia Energy Market Operator (AEMO) with further investigations into appropriate pathways to ensure exit of generators does not jeopardise power system security.

The Council recognises the importance of clear and bipartisan agreement to emissions policies. Specifically, the Council notes the importance of a Renewable Energy Target policy which will remain credible, effective and supported and which has regard to the efficiency of the wholesale market.

As the design and setting of emissions reductions policy has significant implications for investment signals in energy markets, and for energy consumers through the interconnected energy market, the Council will continue to work with the Commonwealth to consider emissions policies that affect the energy sector.

2. Networks – securing benefits of technological change

The Council recognises that the business environment of energy networks is changing rapidly and that networks need to reconsider their role. The Council therefore supports the consideration of regulatory models which are more flexible, where regulation is an enabler and not a barrier to changes. In line with this, the Council is currently 'scenario testing' the current regulatory provisions to ensure these are flexible and robust in light of emerging opportunities, new technologies, potentially changing customer expectations and declining demand. The Council will receive a report on this work at its next meeting, including advice on further work required.

Recent changes in the national rules have strengthened the ability of the regulator to regulate the earnings of electricity network businesses and are starting to deliver benefits to consumers.

However, the Council believes there remains scope for worthwhile gains from more rigorous benchmarking, incentivising businesses to improve productivity and innovation, and through strengthening the opportunities for private sector investment. The Council supports consumers' right to take up new technologies, but recognises that this should not be on the basis of cross-subsidies from other end users. The Council therefore sees the importance of having the right balance between uptake of technology and efficient outcomes for consumers across the system as a whole.

The Council supports tariff reform as an essential next step in this process as a means of providing better price signals to consumers and notes that new Distribution Network Pricing Arrangements will enable distribution businesses to set prices that reflect the efficient costs of providing network services to each consumer. This will allow consumers to make informed decisions about their electricity usage and help to deliver better signals for efficient investment in distribution network capacity. However, while industry has the primary responsibility for communicating change to consumers, the Council will consult with industry on opportunities for governments to assist in supporting consumer understanding and uptake of new tariffs.

The Council supports the push for competitive market-led rollouts of smart meters and the delivery of tangible benefits to consumers from new metering technology.

3. Retail – enhancing a national approach

The Council considers significant progress has been made to implement the energy market reform agenda in retail markets. This has increased competition, helped to place downward pressure on energy prices, and provided more options to most consumers. However, the Council considers it important that existing energy market reforms are progressed through to completion to ensure consumers receive the full benefits.

In particular, the Council considers it is necessary to further enhance competition and promote deregulation of retail energy prices in remaining jurisdictions. In addition, it will work to undertake an assessment of the differences in how jurisdictions have applied the National Energy Customer Framework and examine whether there is a need to enhance frameworks in light of the ongoing change taking place in competitive energy markets, particularly as it regards the introduction of new technologies, products and services.

The Council recognises that enabling technologies, such as advanced metering, combined with regulatory reforms to support demand side services will create new opportunities for customers and change the ways in which energy is supplied and consumed. However, while these developments will enhance competition, the Council also understands it could make energy markets more complicated for consumers.

The Council recognises there is a need for governments to work in partnership with the energy industry and other stakeholders (including energy consumer advocates) to ensure consumers are able to access simple information and tools to effectively engage with the energy market which help build consumer confidence and trust. This work on building consumer education and awareness will be undertaken alongside ongoing work to assess whether the existing consumer protection framework addresses the needs of consumers in a changing energy market. The Council notes the major initiative of the creation of Energy Consumers Australia (ECA) will substantially improve resourcing, accountability and focus in this area.

4. Energy productivity – improving energy use decisions

The Council recognises that the development of new energy services, technologies (such as efficient equipment and buildings) and recent reforms (including cost reflective pricing and competitive metering) increasingly provide strong opportunities to progress Australia's energy productivity. It considers a concerted national focus on energy productivity can drive higher economic output, reduce energy bills for households and business, increase national competitiveness, reduce carbon emissions and improve sustainability.

To further these opportunities, the Council will develop a new policy framework for energy productivity. This policy framework will seek to ensure that energy consumers (large and small) understand and can effectively manage and reduce their energy bills and are maximising the value of their energy to support a growing, competitive and sustainable economy. It will coordinate nationally across both energy efficiency and energy market reform, seeking to improve market and regulatory efficiency. The framework will build on current energy efficiency initiatives and market reforms underway and consider if additional measures are needed to engage and empower consumers in choosing new services (such as trusted decision tools and access to data), measures to support or reduce barriers to competition and innovation in new services, and to improve minimum efficiency standards in buildings and appliances.

The Council recognises a strong role for businesses in any approach to productivity improvement. The Council expects business to deliver real benefits to their customers from current reforms and new services as soon as possible, particularly in regard to tariff reforms and ways to improve tools and communication across the sector.

5. Natural gas – accelerating market transformation

The Council recognises that Australian gas markets are experiencing a rapid transition as conventional gas reserves decline, unconventional gas resources become increasingly important, gas pipeline and storage infrastructure improves, and the eastern Australian gas market develops a strong international linkage. The transformation occurring in Australian gas markets presents unheralded economic opportunities for the Australian economy and timely reforms will ensure these opportunities are maximised for the good of all Australians. However, the Council recognises the need to improve the availability of factual information, informed by robust science, which will ensure communities are engaged and have a high level of confidence in regulatory approaches relating to gas exploration. The Council rejects the need for national interventions such as national gas reservation as solutions to pressures in the eastern gas market, and considers there are opportunities to improve the function of the gas market and remove impediments to supply.

The Council has released its [vision for the gas market](#) (see linked document for full detail) which reflects an objective to lead to *“the establishment of a liquid wholesale gas market that provides market signals for investment and supply, where responses to those signals are facilitated by a supportive investment and regulatory environment, where trade is focused at a point that best serves the needs of participants, where an efficient reference price is established, and producers, consumers and trading markets are connected to infrastructure that enables participants the opportunity to readily trade between locations and arbitrage trading opportunities.”*

Under this vision, the Council will pursue four policy work streams:

- Competitive supply
- Transparency and price discovery
- Risk management
- Removing unnecessary regulatory barriers.

This vision also specifies 12 specific outcomes, and the addition of new actions to the [Australian Gas Market Development Plan](#) (see linked document for full list) to improve their visibility and accountability.

In the first instance 11 new actions have been introduced, which broadly:

- Pursue cooperation on the development of a gas supply strategy, which informs communities and facilitates the responsible development of gas resources
- Facilitate major gas supply and infrastructure projects
- Improve access to key market information by participants
- Improve competition and market function and, while noting different existing jurisdictional approaches, not pursue national reservation policies
- Task the Australian Energy Market Commission (AEMC) to review the design, function and roles of facilitated gas markets and gas transportation arrangements. The AEMC was asked to provide a report to the first Council meeting in 2015 for actions that can be implemented to strengthen the structure and competitiveness of the east coast gas market.

The Council considers participation from stakeholders as critical to the successful development of the gas industry and will enlist the expertise of industry, consumers and the wider community in undertaking its pursuit of its vision for Australia's gas markets.

6. Resources – productivity and development

The Council emphasised that the resources sector is a key contributor to the Australian economy and the lifeblood of many towns and communities, particularly in remote and regional Australia. While the resources boom of the last decade is bringing long lasting benefit to Australia, as global commodity supply expands in response to market forces, Australia faces growing competition for investment. Australia is not short of resources or high quality opportunities for further development. By focusing on its competitive advantages, raising productivity and improving its competitiveness, we can continue to grow our resources, create jobs and further increase living standards and aspire to a future where Australia is:

- A country that embraces its innovation potential and invests in innovative research, technology transfer and data accessibility
- Globally recognised as a hub of services to resource operations, through a skilled workforce and entrepreneurial and integrated supply chain
- The home of informed and supportive communities which tangibly share the benefits accruing from the nation's resources endowment
- A place where the next generation of resource professionals are skilled
- The preferred place to do business due to the continued drive to be globally competitive.

Recognising the wide-ranging reform agendas currently underway at a national and state and territory level, the Council has agreed to a work program aimed at promoting development of Australia's mineral and energy resources, including enhancing exploration, knowledge and skills.

This re-invigorated and focussed work program includes: streamlining regulation; developing new mineral and energy resource opportunities; improving community engagement and understanding of the sector; commercialisation of technology and innovation; improving our knowledge base; better use of information to improve outcomes and reduce costs; and building on skills, training and workforce participation. The Council also recognised the growing challenge posed by campaigns aimed at undermining public confidence and investment in the exploration and extraction of our natural mineral and energy resources. While the Council supported the democratic right for peaceful debate and protest, it does not condone unlawful activities that damage or disrespect the rights of private citizens and businesses. The Council has agreed to take a leadership role in this area by working with industry and leading experts including our science agencies to develop a set of specific actions that promote community confidence and engagement. These will have a strong focus on:

- Improving local community engagement including through promotion of leading practice approaches
- Transparency of regulatory processes and data sharing
- Facilitating coexistence of resources and energy development and other land uses to encourage the growth of multi-industry regional communities
- Improving public communications to address misinformation around the risks and impacts associated with resource development.

Reports

Energy Market Bodies

The Council met with the three energy market bodies – the AEMC, Australian Energy Regulator (AER) and AEMO. The Council welcomed Ms Paula Conboy to her first meeting as AER Chair and congratulated Mr John Pierce on his reappointment to the role of Chairman of the AEMC.

NOPSEMA

The Council welcomed Mr Stuart Smith to the role of Chief Executive Officer of the National Offshore Petroleum and Safety Environmental Management Authority (NOPSEMA). Mr Smith and the Chair of the NOPSEMA Advisory Board, Mr Keith Spence, provided Ministers with an update on NOPSEMA's activities over the past year.

Major Decision Items

Establishment of Energy Consumers Australia

The Council was pleased to note that the legislative amendments package providing for ECA's permanent funding mechanism and to repeal the Consumer Advocacy Panel functions passed through the South Australian Parliament on 3 December 2014. It is now with the South Australian Minister for Mineral Resources and Energy, the Hon Tom Koutsantonis MP to be put into effect.

Recognising the strategic importance of ECA, the Council has previously agreed to provide transitional funding to ECA until necessary administrative arrangements can be made for ECA to receive and make use of its permanent funding as provided by AEMO. This will allow for the establishment of ECA in January 2015. Key implementation arrangements for the ECA, such as the appointment of the ECA Board, and registration of the company are progressing and will be finalised and announced as soon as practicable.

Review of Governance Arrangements for Energy Markets

The Council has finalised the Terms of Reference for the Review of Governance Arrangements for Energy Markets to commence in the New Year. In keeping with a commitment to the Council of Australian Governments (COAG), the Review will examine the broad energy market institutional structure created by COAG as well as the legislative framework that establishes and assigns functions to institutions. The Terms of Reference are available on the Council [website](#).

The composition of a Review Panel will be publicly announced following the conclusion of the appointment process.

Review of Enforcement Regimes

The Review of Enforcement Regimes was designed to strengthen and enhance the effectiveness of the enforcement regimes under national energy laws. The Council agreed to task officials with implementing 11 of the 13 recommendations in the Review. The remaining two recommendations (2 and 13), changes to the powers and functions of the AER, require further policy and legal work before a decision can be made on whether to adopt them or not. The implementation process is expected to be undertaken during 2015/16 noting the importance of continued stakeholder consultation and more in-depth cost benefit analysis before finalising any proposals for legislative and regulatory changes.

Demand Response Mechanism: Cost Benefit Analysis

The Council reviewed the cost benefit analysis of a Demand Response Mechanism (DRM) prepared for the Council by independent consultant, Oakley Greenwood. The DRM cost benefit analysis report prepared by Oakley Greenwood will be available through the Council [website](#).

The Council agreed that consumers would benefit from changes to the rules that allowed greater access to demand response services and tasked officials with preparing a rule change proposal for the consideration of the AEMC. The Council also supported changes to existing rules to allow for the unbundling of ancillary services. The rule change request will propose a DRM scheme that is based on voluntary participation by market participants and a staged implementation to minimise costs for non-participants in the scheme.

Further Developments on a National Approach for Reliability Standards

The Council agreed to a [response to the AEMC's report](#) on a national framework for distribution and a national framework for transmission reliability. The Council recognised the need to balance a reliable electricity supply with the costs of meeting reliability standards as a significant part of consumer bills. Adopting the principles in the Council's response will improve the transparency, independence and robustness of the reliability standard setting process. Individual jurisdictions will report back on their application of the principles in mid-2015.

Other Matters Considered by Ministers

Network Regulation: Scenario Work Update

The Council noted progress made to date on the strategic assessment of the performance of the existing network economic regulatory model against potential future scenarios. In particular, it noted the development of the scenarios for the purpose of undertaking a robust stress test of the ability of the regulatory framework to efficiently adapt to these potential changes. The Council stressed the strategic importance of this work, noting it will inform the Council on the readiness of the regulatory framework set against physical and technical challenges. A report

on the stress-testing and advice on the need for further work will be presented to the mid-2015 Council meeting.

National Electricity Market Financial Resilience

The Council was provided with an update on the AEMC's work on the Second Interim Report on the financial stability of the NEM. The Council discussed the AEMC's draft recommendations from the Second Interim Report to improve the resilience of the NEM in the event of a failure of a participant.

The Council noted that the AEMC intends to release its Final Report on NEM Financial Market Resilience in February 2015.

Forecast Trends in Electricity Prices – Release of 2014 AEMC Report

The Council noted the release of the AEMC's 2014 Residential Electricity Price Trends Report. The Report identifies factors driving electricity prices over the three years to 2016/17 in all states and territories. The Report highlights that residential electricity prices have fallen in 2014/15 in most states and territories following the removal of the carbon tax. The extent of this decrease varies between jurisdictions, as the savings are offset by changes in other components that make up electricity prices. Average national prices are expected to fall again in 2015/16 before increasing moderately in 2016/17, with variations between states and territories. Jurisdictional trends will most likely be driven by changes in regulated network prices, which will depend on forthcoming regulatory determinations by the AER. These determinations will be made under the new framework for network regulation. A copy of the report is available on the [AEMC website](#).

Northern Territory Electricity Market Reform

The Council noted progress by the Northern Territory on electricity market reforms, including on the adoption of the national frameworks. The Council and its institutions committed to assisting the Northern Territory to apply these frameworks as consistently as possible, notwithstanding the lack of physical interconnection to the NEM.

Gas Transmission Pipeline Capacity Trading Decision RIS Implementation

The Council welcomed the launch of AEMO's redeveloped National Gas Bulletin Board website and congratulated AEMO and stakeholders for the considerable work undertaken to improve this valuable resource. This achievement follows the 13 December 2013 Council decision to endorse the Gas Transmission Pipeline Capacity Trading Decision Regulation Impact Statement. The Council considered the changes to the Bulletin Board would assist in reducing transaction costs to facilitate further trade in pipeline capacity by improving its functionality and useability. The Bulletin Board website can be accessed [here](#).

National Radioactive Waste Management Facility

The Council noted the Commonwealth's reaffirmed commitment to a national waste management facility and progress on the search for a suitable site.

NOPSEMA – Extension of Role to Coastal Waters

The Council noted the progress made by the Commonwealth, South Australia and Northern Territory Governments towards further streamlining of offshore petroleum regulation in coastal waters through the conferral of powers and functions on NOPSEMA. In particular, the Council noted amendments to the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* to extend the area of coastal waters eligible for conferral, which were tabled by the Commonwealth in Parliament last week. The Council also considered opportunities to further streamline regulatory arrangements in other jurisdictions and agreed to continue discussions with Commonwealth officials.

Membership and Role

The COAG Energy Council comprises Commonwealth, State, Territory and New Zealand Ministers responsible for energy and resources.

Commonwealth (Chair)	The Hon Ian Macfarlane MP Minister for Industry
New South Wales	The Hon Anthony Roberts MP Minister for Resources and Energy
Victoria	The Hon Liliana D'Ambrosio MP Minister for Energy and Resources
Queensland	The Hon Andrew Cripps MP Minister for Natural Resources and Mines
	The Hon Mark McArdle MP Minister for Energy and Water Supply
Western Australia	The Hon Bill Marmion MLA Minister for Mines and Petroleum
	The Hon Mike Nahan MLA Minister for Energy
South Australia	The Hon Tom Koutsantonis MP Minister for Mineral Resources and Energy
Tasmania	The Hon Matthew Groom MP Minister for Energy
	The Hon Paul Harriss MP Minister for Resources
Australian Capital Territory	Mr Simon Corbell MLA Minister for Environment and Sustainable Development
Northern Territory	The Hon Adam Giles MLA Northern Territory Treasurer
	The Hon Willem Westra van Holthe MLA Minister for Mines and Energy
New Zealand	Hon Simon Bridges MP Minister of Energy and Resources

The Council meets formally twice a year to discuss the challenges facing the energy and resources sectors in Australia, discuss the progress of existing reforms and to agree the forward work program for future reforms. Stakeholder engagement is critical to the development and implementation of the Council's work program and a cross-section of stakeholders are invited to attend each meeting to inform deliberations on the forward agenda.

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