

Improving Policies and Management in the Energy Sector

Australian Energy Market Reform

Description of Initiative

- Efficient and effective energy markets are a key to achieving prosperity, reliability and sustainability from energy. Market reforms that encourage energy users to better manage demand, for example, will help deliver both economic and environmental gains. Fully functioning and competitive energy markets encourage diversity of generation supplies and technologies, with low carbon technologies (eg natural gas, hydro, solar) expected to grow. Energy markets provide the basic framework within which complementary policies (eg environmental, social) can function. In the interests of maintaining efficient and effective energy markets, it is important to ensure that the environment and social policy measures are transparent and non distortionary.
- In Australia, demand for stationary energy services is projected to grow by at least 50 per cent over the period to 2020. The energy industry has estimated that at least AU\$37 billion in energy investments will be required by 2020 to meet Australia's future energy needs. How efficiently and effectively Australia meets this future demand will play a key role in determining future prosperity, security and sustainability of energy production and use. Market signals are needed to ensure that the right investments are made in the right places at the right times.
- Historically, Australian gas and electricity markets were based at state level and were weakly linked, if at all. Australia's dispersed population, large transmission distances, and federal structure meant that electricity was generated regionally and supplied to limited intrastate grids. In some cases, gas exports from one state to another were prohibited, even where they were the most economic source of supply. Energy market reform began to gather force internationally in the 1980s and was given impetus in Australia in the early 1990s through a major reform programme by state, territory and the Australian Government, including disaggregation, corporatisation and privatisation of utilities.
- In June 2001, the Council of Australian Governments (CoAG) established the Ministerial Council on Energy (MCE) to provide national energy policy oversight and leadership, and commissioned an independent Review of Energy Market Directions. This review concluded that additional reforms would increase real Australian Gross Domestic Product by an additional AU\$2 billion per annum. This process culminated in a substantial package of energy market reforms recommended by the MCE, including those outlined below.

Australian Energy Market Agreement

- The CoAG *Australian Energy Market Agreement* gave effect to MCE's recommendations which are being implemented through the three year *Energy Market Reform Program*. The key objectives of this program include:
 - rationalising the energy market's regulatory structure through implementing new governance and economic regulatory policy and creating the necessary institutional arrangements to administer this new structure; and

- addressing key issues related to the nature of the electricity and gas markets and improving user participation in the energy market.
- The Agreement identified the MCE as the national policy and governance body for the Australian energy (electricity and gas) market. New governance arrangements also provide for the separation of the rule making and rule enforcement functions. Two statutory bodies have been established: the Australian Energy Market Commission with responsibility for rule-making and market development for gas and electricity; and the Australian Energy Regulator with responsibility for gas and electricity market regulation, market surveillance, rule enforcement and price regulation.
- The Australian Competition and Consumer Commission (ACCC) is responsible for competition regulation across the electricity and gas sectors, while the National Electricity Market Management Company (NEMMCO) operates and administers the National Electricity Market in accordance with the National Electricity Rules.
- An *MCE transmission policy framework/statement* brought together key elements of the transmission reforms providing for a national approach to efficient transmission planning, investment and operation. It will ensure the delivery of integrated transmission network and energy services through the coordination of the major flow paths, congestion management, and transmission performance.
- The *MCE User Participation Policy framework* recognises that the need for greater user involvement by developing a framework that encourages greater user participation through demand side response, interval metering, consumer awareness and consumer advocacy.
- The *MCE Expanded Gas Program* seeks to accelerate the development of a reliable, competitive and secure natural gas market with additional benefit of a diversifying Australia's energy sources. The program consists of three components – gas market development, gas infrastructure and upstream gas – with the intention to formulate a gas market development plan based on the first two components.

Renewable and Distributed Generation Working Group

- In August 2004, the MCE established the Renewable and Distributed Generation Working Group. This Group has been established to provide strategic advice on policy directions for removing impediments to, and promoting the commercial uptake of renewable and distributed generation technologies and practices in the Australian energy market. The working group is responsible for wind energy policy, the development of a national Code of Practice for Embedded Generation, and the Improving Grid Accessibility initiative.

Mainstreaming/Sustainability

- Energy market reforms in Australia over the last decade, including the formation of the National Electricity Market in 1998, have delivered significant benefits, adding AU\$1.5 billion a year to the economy as a whole from lower prices, better investments and the flow-on benefits of these to the competitiveness of Australian industries.
- Recent private sector infrastructure investments have been in response to clear market signals and show that the market is beginning to function effectively. Energy market reform however remains an ongoing process, and substantial work

is left to do. The National Electricity Market is still largely a series of regional markets with limited interconnection and investment signals remain weak in a number of important areas, like demand side participation. The gas market also is still immature and both markets are far more developed in the eastern states. Reforms to address these issues are needed urgently to provide better signals for investors.

Replicating the Initiative

- Australia is participating in multilateral and bilateral forums which are providing an opportunity to share experiences on energy market reforms. Two prominent multilateral forums in which Australia is actively engaged are the International Energy Agency (IEA) and the APEC Energy Working Group (EWG). A recent review of Australia's energy policy by the IEA noted that our energy market reforms are a model for other countries.