



What can be done in the longer term?

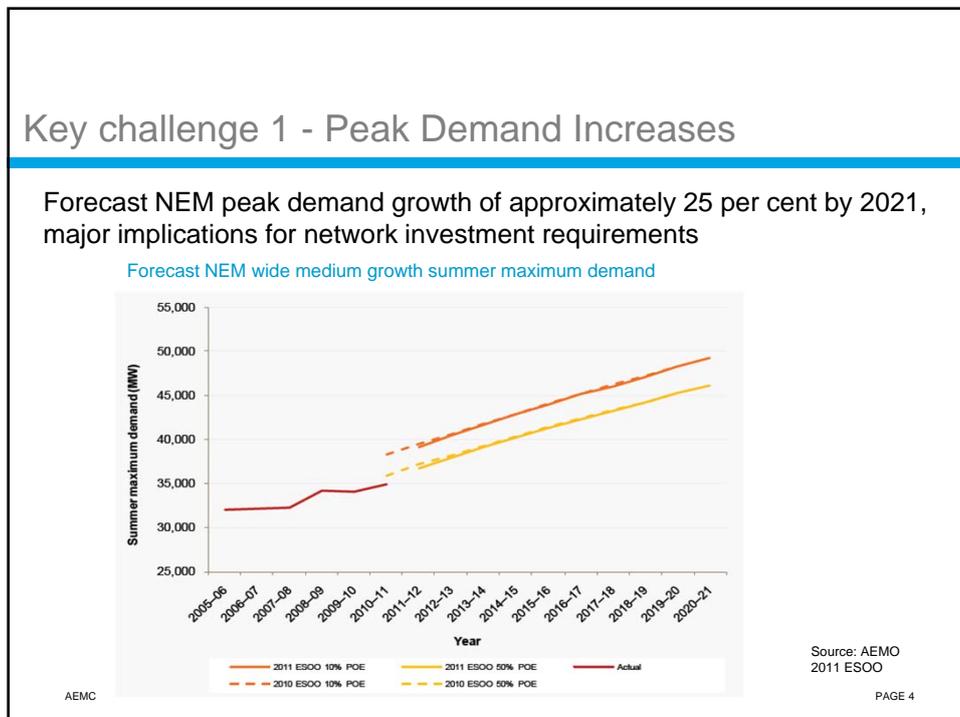
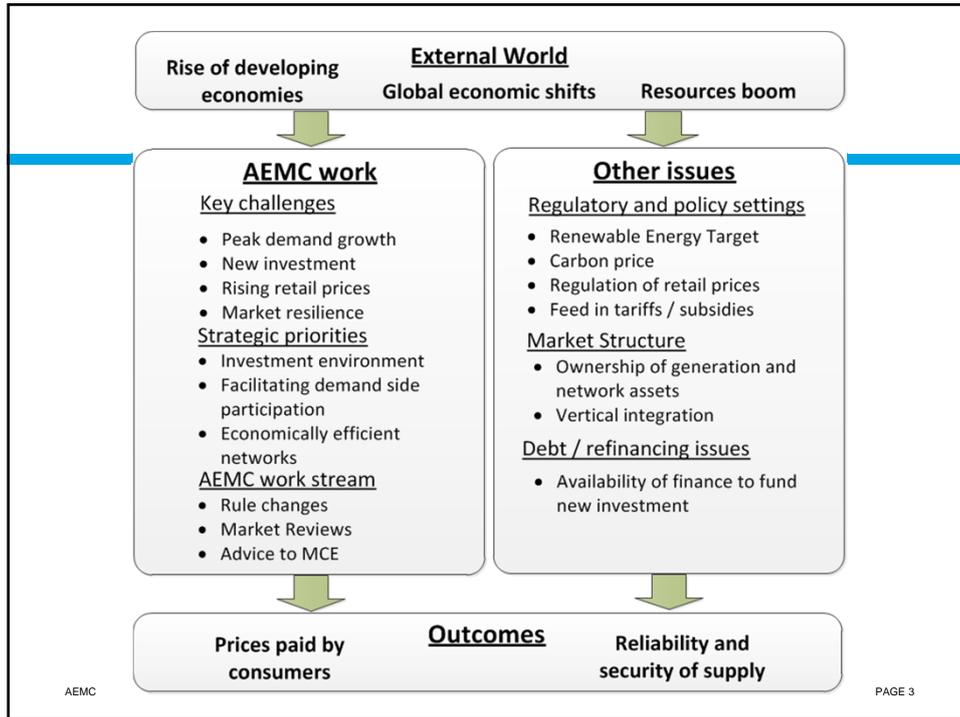
ACOSS seminar "Energy at Home: Current Issues for Consumers"



John Pierce
Chairman
AUSTRALIAN ENERGY MARKET COMMISSION

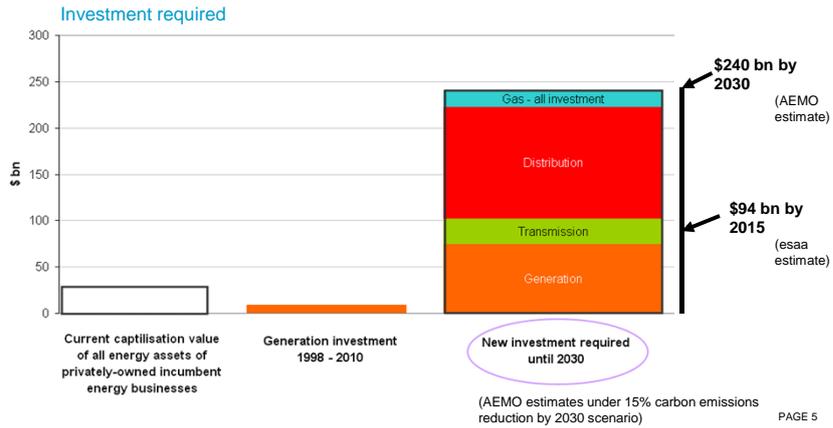
Overview

- The overall situation – factors driving market outcomes and who is responding
- Review of AEMC's identified key challenges, strategic priorities and related work program
- Commentary on other issues with implications for small consumers:
 - Gas and the resources boom
 - Industry structure
 - Retail price regulation
 - Establishment of the National Energy Customer Framework



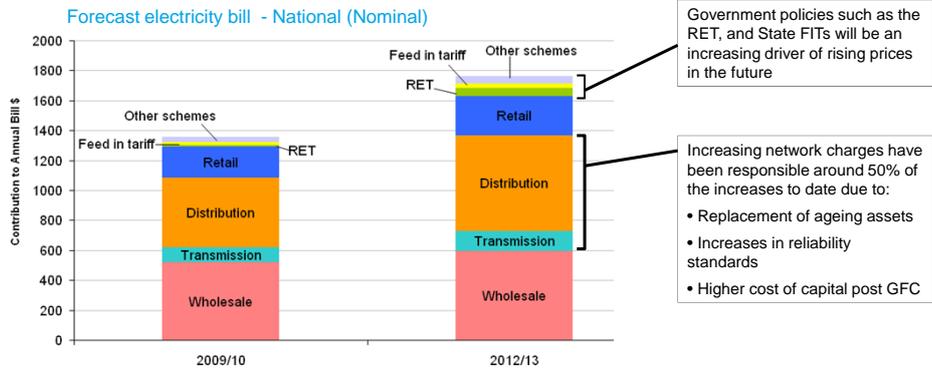
Key challenge 2 - Investment Requirements

\$94bn of new investment required across the Australian energy sector in the next 5 years, to meet peak demand and Government climate change policies



Key challenge 3 - Rising Retail Prices

Scale of increases varies between States, but on average about 30% expected by 2013



Key challenge 4 - Market Resilience

- The GFC has highlighted the potential for unforeseen events to impact the internal resilience of financial markets
- Energy contract markets have similar financial inter-dependencies and limited transparency, leading to a risk of financial contagion
- Effects of carbon price introduction will place stresses on markets
- Increased penetration of wind generation increases price volatility. This increases risk management challenges for retailers
- May also be issues for AEMO and TNSPs to manage networks

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AEMC Strategic Priorities



Strategic Priority 1- A predictable regulatory and market environment to reward efficient investment

- Efficient investment promotes supply of energy to consumers *at the lowest sustainable cost possible*
- Significant new investment is required to meet growing demand and climate change policy objectives
- However, a number of factors will influence investment:
 - Limitations on the availability of post-GFC finance
 - Uncertainty over government policy and regulatory settings
 - Changing market structure: vertical integration and the contract market

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Strategic Priority 2 – Building the capability and capturing the value of flexible demand

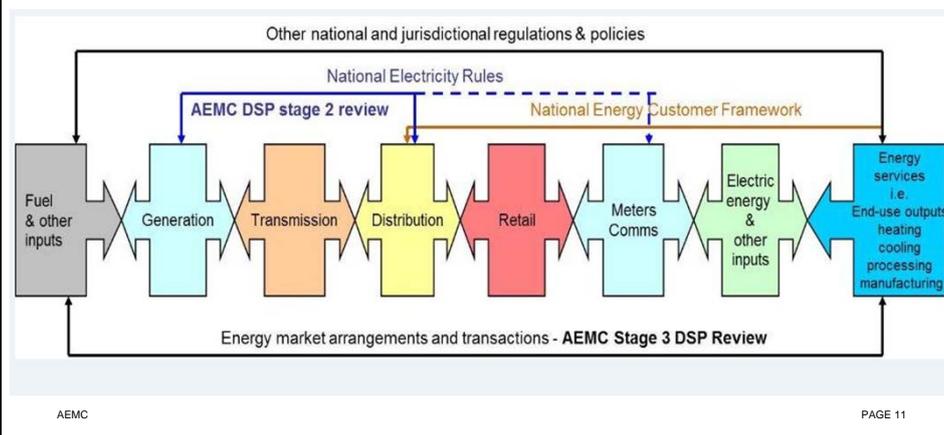
- Active demand side participation (DSP) can contribute to minimising rises in energy costs, as it can:
 - manage price volatility
 - offset new network augmentation
 - allow for development of new energy services
 - allow customers to effectively manage their consumption and costs
- However, DSP faces some challenges before benefits are realised:
 - it must be cost effective; and
 - technically and contractually viable
- Customers will also need to be made aware of DSP

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Strategic Priority 2 – Demand Side Participation Review

Power of Choice Review: a wide ranging assessment of opportunities for demand side participation – whole of supply chain to be considered



Strategic Priority 3 – Ensuring the transmission frameworks deliver efficient investment

- Climate change and rising demand place new pressures on networks
- These have the potential to affect prices paid by customers
- Efficiency of network investment must also be considered
- Network costs are the single largest component of recent price increases
- AEMC has also found that network costs are likely to contribute to around 50% of likely retail price increases in coming years
- The regulatory frameworks governing network investment must be carefully considered in light of these figures.
- Careful consideration needed of the value of further inter regional capacity

Gas and the resources boom

- Development in China and India is driving a resources boom for Australia
- Also likely to result in increased demand for Australian gas as new East Coast LNG developments progress
- Increased uncertainty in regards to east coast gas prices:
 - domestic gas prices increasingly influenced by international prices
 - implications for the NEM with increased reliance on gas generation

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Retail Price Regulation

- Retail price regulation removal is a state government prerogative. Where it is retained, should be set in such a way that it does not deter new entry.
- The AEMC will conduct its next reviews of retail competition:
 - NSW in 2012,
 - Queensland in 2013.
- The AEMC will also continue to provide advice on retail price forecasts annually to COAG / MCE

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National Energy Customer Framework

- The National Energy Customer Framework will commence in July 2012
- Includes the National Energy Retail Rules (NERR)
- This delivers a single national framework for governing non-economic aspects of electricity and gas retail regulation
- The AEMC will administer the NERR
- Development of Rules will be the role of the AEMC
- However, state governments decide what aspects of the NERR they wish to adopt, and when they will do so

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Industry Structure

- Vertical integration between generators and retailers is becoming increasingly prevalent in the NEM
- Represents a reasonable risk management strategy in response to current market circumstances
- However, significant levels of VI may be problematic:
 - can reduce contract market liquidity
 - may discourage entry of independent retailers and generators
- Important to ensure that no new barriers exist to entry are raised by policy decisions

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Conclusion

- Summary
 - What can be done in the longer term?
- Important not to make things worse
- Regulatory and Policy framework must provide:
 - Efficient investment
 - Efficient consumption
 - Efficient market structure

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