

Synopsis of the First Meeting

The first meeting of the Review stakeholder Advisory Committee was held on 8 September 2008. The purpose of the meeting was to discuss the scope and potential range of issues relevant to the Review.

The Review is to assess the existing energy market frameworks to determine if they require amendment to accommodate the introduction of the CPRS and expanded RET.

The issues were grouped under three broad themes for the purpose of discussion: (i) operation of wholesale and retail markets; (ii) networks; and (iii) system operation/reliability.

General comments

- The Committee noted that the CPRS and expanded RET will affect a large number of aspects of electricity and gas markets.
- Some members considered that whilst energy markets have worked well to date, they will be tested in the new regime.
- Many members indicated that there are likely to be different issues in the short term versus the longer term as technological responses evolve under CPRS.
- Some members stressed the importance of carefully considering the costs of change to the current arrangements, as well as the benefits.

Wholesale and retail markets

- Members noted that CPRS was likely to encourage market participants to move to less greenhouse intense fuels for electricity (coal → gas). Members discussed what this might mean and whether there may be a change from the traditional types of generation being dispatched.
- It was noted that if there are changes to the way generators are dispatched – will plants be able to operate more flexibly (turn on and off more frequently).
- A few members noted that there is likely to be increases in natural gas use. This may result in greater interactions between the electricity and gas markets.
- Many members noted that energy costs and electricity prices are expected to rise. Electricity prices in particular will fluctuate in the transition period to CPRS. It was noted that any volatility in prices increases the range of risks that market participants need to manage (e.g. credit, illiquidity in financial markets and movement towards vertically integrated businesses).
- Some members noted that demand management should play a greater role, particularly as the supply and demand balance for energy supply tightens. It was noted that incentives should support, and not hinder, this.
- The Committee noted that the potential increases in prices are expected to impact on retailer and consumers more generally. Determining the best mechanisms to address the challenges faced by retailers and consumers is important.

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Networks

- Many members noted that a large range of new investments entering the market is expected, once the climate change policies are more clearly defined. Members noted that this would have significant implications for networks, and that this had not had an appropriate level of visibility in the debate to date. Members discussed the following key points with respect to this issue:
 - the need for better coordination of infrastructure requirements and network connections;
 - the application of the existing regulatory test – does the criteria appropriately consider the full range of issues and result in the appropriate outcomes;
 - how best to ensure that network assets are not stranded to accommodate new generation investments;
 - are the current access regimes to networks encouraging efficient investments;
 - the allocation of “who pays” with respect to increased renewable energy generation entering the market, particularly in remote locations; and
 - are the existing planning regimes appropriate to address the increases and difference of levels of congestion across the network in the new regime.

System Operation and Reliability

- Members noted that system operation and reliability are a key critical to maintain in the new regime. It was noted that due to the changes in the mix and technology of generation, reliability of both the electricity and gas systems will need to be better managed.
- The Committee noted the range of mechanisms used by market operators to ensure reliability (e.g. directional powers/ reserve trader). A key question was posed - will these be appropriate and will they continue to be effective.
- Members noted that tight supply is predicted – firstly due to demand increased, secondly due to uncertainty over the climate change policy and delay of investments. Many members questioned if the shortfalls be able to met and what will the differences across jurisdictions?.

Synopsis of the Second Meeting

The second meeting of the Advisory Committee was held on 6 November 2008. The purpose of the meeting was to review the range of issues outlined in the Scoping Paper and assess their materiality for progression to the next stage of the Review. Discussions were also held on the new information available that may intersect with the Review, and the process of how the AEMC will prioritise the broad range of issues.

New Information

Members noted that there is a range of new information which presents very different but credible information and scenarios for consideration of the issues for the Review. The information discussed that particularly intersected with the Review includes:

- Treasury modelling of economy wide impacts of the CPRS;
- Garnaut Final Report;
- 2008 Statement of Opportunities (SOO); and
- Global credit market impacts.

Prioritising the Issues

The Committee discussed and endorsed the AEMC's proposed criteria for prioritising the issues, based on criteria including:

- the overarching objectives of the relevant markets (NEM, Gas, WA and NT);
- is the issue or its consequences attributable to the CPRS or expanded RET;.
- is there a likelihood that the issue will materialise;
- do changes to energy market frameworks have the potential to make a difference;
- if the issue materialises, will it impose significant economic costs; and
- can the issue be adequately managed under existing governance processes.

Range of Issues – Priorities for the Review

Issue 1 - Convergence between electricity and gas markets

- Majority of members considered that whilst there was likely to be an increase in convergence of the two markets over time, it was viewed that the existing frameworks are capable of adapting. One member did note however that the issue required consideration particularly with respect to fuel switching and power system and gas security.

Issue 2 – Generation capacity in the short term

- Many members considered that this issue was mainly attributable to policy uncertainty on CPRS. Members agreed, however, that the issue warranted further analysis to determine if any consequent changes were needed to the existing frameworks. A member noted that the issue was created externally and was transitional, and should not therefore drive significant changes to how the market operated.

Issue 3 – Investing to meet reliability

- Members discussed the merits of the current regime and mechanisms versus fundamental reform. It was considered that the existing framework was capable of meeting challenges of CPRS. Some members noted that demand management should play a greater role, particularly as the supply and demand balance for energy supply tightens.

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Issue 4 – System Operation and intermittent generation

- Members noted that there are some improvements to the NEM that could be made, but these should be developed through existing mechanisms rather than through the Review. WA members noted that this issue is particularly important for managing system operation in WA.

Issue 5 – Connecting new generators to energy networks

Issue 6 – Augmenting networks and managing congestion

- All members considered that these issues warranted further analysis and possible strategies to mitigate risks from introduction of the expanded RET. Key issues related to connections for remote renewables, inter-regional transmission use of the system charges and elements of the existing regulatory test.

Issue 7 – Retailing

- Members noted that retail price regulation was a major issue that required further consideration, and should be progressed to the next stage of the Review.

Issue 8 – Financing new energy investments

- Members considered that this issue was not in itself material to take forward to the next stage of the Review. It was noted however that this issue intersected with the range of other issues for the Review.