



AUSTRALIAN
ENERGY
REGULATOR

ANNUAL REPORT 2013–14

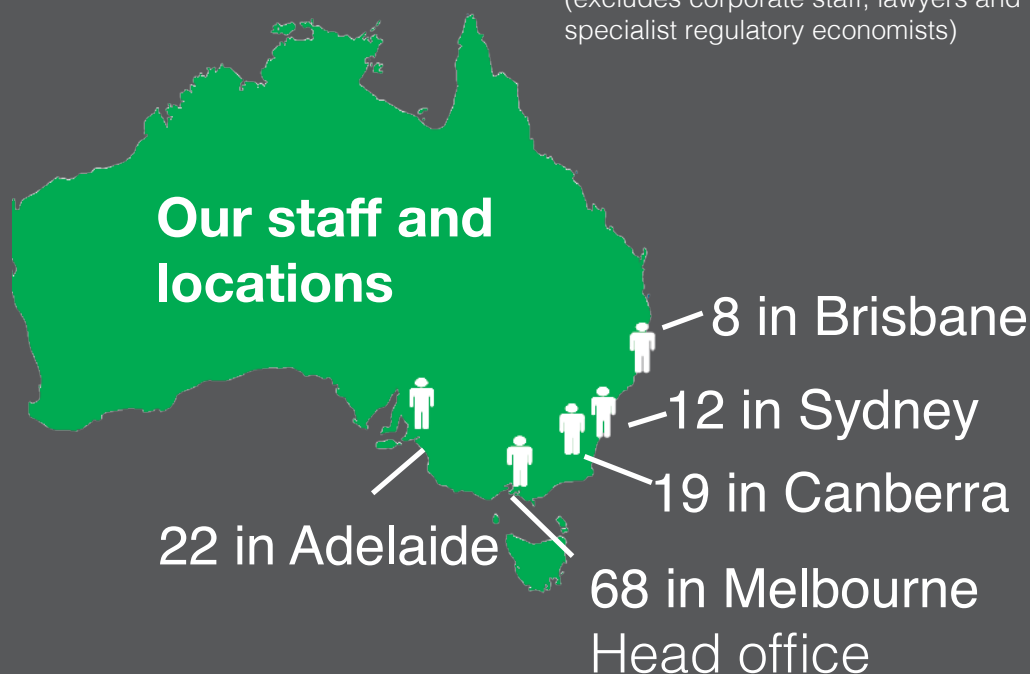
OUR BUSINESS

The Australian Energy Regulator (AER) regulates energy markets and networks. Our independent board has one Commonwealth member and two state and territory members.

The AER's energy network regulation and wholesale market functions cover all states and territories except Western Australia (and in the Northern Territory we regulate only gas transmission). Our retail energy market functions cover South Australia, Tasmania, the ACT and New South Wales.

TOTAL AER STAFF: 129

(excludes corporate staff, lawyers and specialist regulatory economists)



CONSUMERS

4 million

We protect the interests of over household and small business energy consumers by enforcing the Retail Law. We assist consumers to engage with energy markets and to obtain the best offer through education and via the Energy Made Easy website, which helps consumers to compare energy offers and their usage.

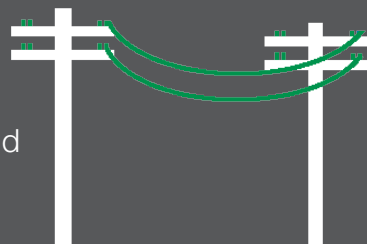
WHOLESALE MARKETS

We enforce the laws for the national electricity market and five wholesale gas markets (Victoria, Sydney, Brisbane, Adelaide and Wallumbilla). We monitor and report on the conduct of over **280** registered market participants. These markets have an annual turnover in excess of \$12 billion.

\$12 billion

NETWORKS

We set the prices charged for using energy networks (electricity poles and wires and gas pipelines) that transport energy to customers.



55

authorised
retailers

RETAIL MARKETS

We enforce retail energy market laws and monitor the conduct of 55 authorised retailers and other energy sellers. We approve customer hardship policies, operate a scheme to protect customers/markets when retailers fail and report on market outcomes.

HIGHLIGHTS OF THE YEAR

IMPROVING OUR CAPABILITIES

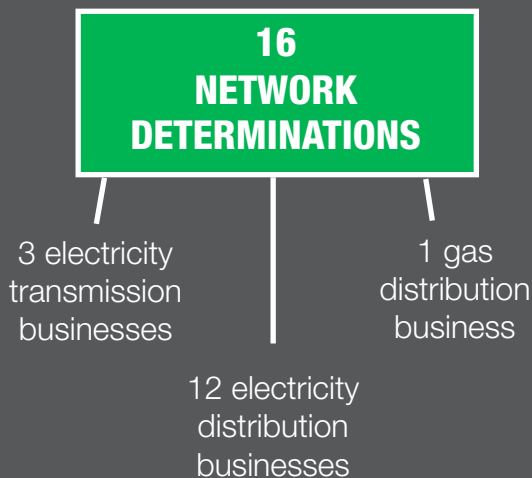


We expanded our expertise by creating a technical advisors group. The group consists of four senior industry experts who will provide technical and industry advice to the board and staff. We also restructured our network branches to use existing resources better. Further, we developed a database to improve how we collect, store and report on data from network businesses.

NETWORK DETERMINATIONS

We completed one network determination and approved **\$1.6 billion** in total revenues. We also made transitional decisions for six electricity distribution and transmission network businesses, approving total placeholder revenues of around **\$5.7 billion** for 2014–15.

We commenced 16 network determinations, covering three electricity transmission businesses, 12 electricity distribution businesses and one gas distribution business.



WHOLESALE MARKETS

We initiated one rule change proposal, and are participating in another important proposal, aimed at strengthening wholesale market efficacy. We assessed **125** compliance matters and undertook a number of compliance activities. This included issuing **three** infringement notices, and completing **seven** strategic compliance projects and **three** audits of generators, network businesses and pipelines.

CONSUMERS

We expanded the use of our Energy Made Easy website

www.energymadeeasy.gov.au

1.95 million — There were 1.95 million unique page views on the website.

465 000 — There were 465 000 visits to the website.

5 000 — There were over 5000 offers published on Energy Made Easy for residential and small business customers, providing consumers with a user friendly way to compare energy offers and their energy use.

7 BETTER REGULATION

We finalised seven guidelines for the **Better Regulation** program.

The guidelines provide transparency and certainty in the regulatory framework to support efficient investment. The guidelines focus on promoting the long term interests of electricity consumers, including:

- > taking a new approach to set the rate of return that businesses earn on their investments (for gas and electricity networks)
- > improving how we assess energy businesses' expenditure proposals, including benchmarking
- > creating the right incentives to encourage efficient spending by businesses
- > encouraging more effective consumer engagement strategies.

RETAIL MARKETS

Our role expanded into New South Wales when the Retail Law commenced there on **1 July 2013.**

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Chair's review

I am pleased to introduce the Australian Energy Regulator's (AER) second annual report. It details our work in 2013–14 and comments on our performance against a range of indicators. It also provides more transparency about our work and the organisation.

Energy services are in the midst of significant change. Much of this change is driven by community concerns about the ability of conventional energy markets and services to meet their needs at reasonable prices. After a period of significant price increases and an intense period of review and reform, the community is now looking to us, energy businesses and government to show results. The primary aim of our work program in 2013–14 was to deliver on those expectations.

Our strategic priorities in 2013–14 focused on improving the economic regulation of networks and on engaging consumers to participate in markets. We carried this focus on the better operation of energy markets into our ongoing work program. We initiated one rule change proposal, and are participating in another, to enhance the efficiency of the wholesale electricity market. We continued to participate in reforms to empower consumers to save on energy costs by shifting consumption away from peak times. We also developed new ways of including consumer representatives in our approach to regulation and have now embedded channels for consumer views in our network decisions.

This year we conducted our third stakeholder survey to gauge views on our performance. We were pleased to see stakeholders consistently considered our overall performance as satisfactory to good against all performance indicators. We received strong positive feedback about our recent initiatives to improve the way we engage with stakeholders and how we communicate our processes and decisions. The survey helped us identify areas we will continue to work on, as described in this annual report. We thank all stakeholders for their participation and input in our survey. Their evaluation of our performance helps maintain and drive improvements in the way we operate.

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Three of our strategic priorities for 2013–14 related to completing work programs and initiatives started in 2012–13. We completed the Better Regulation program and are now applying the new rules and guidelines and our increased resources to the next round of network price determinations. We also embedded greater levels of stakeholder engagement in our economic regulation and retail energy markets work. The highlights of our achievements are set out below; part 2 provides a detailed account of our activities.

Priority 1: Implementing our Better Regulation program

This year we finalised seven guidelines for the Better Regulation program, establishing transparency and certainty in the regulatory framework to support efficient investment. Incentive regulation is at the heart of our approach. The framework strengthens incentives for network businesses to spend efficiently, with the benefits to be shared with consumers. There are rewards for efficiency and penalties for spending more than our forecasts of efficient expenditure. The framework also sets out new approaches in two crucial areas: how we calculate the rate of return and how we assess expenditure forecasts (including through economic benchmarking). Finally, it establishes consumer engagement as a central part of the process.

We saw the beginning of Better Regulation implementation, with the last regulatory decision under the old rules completed this year. We commenced 16 network determinations under the new rules, made six transitional decisions and gathered substantial material for the first economic benchmarking report.

Priority 2: Strengthening stakeholder engagement

The need to strengthen consumer engagement in regulatory processes has been a key reform theme in recent reviews and rule changes. Recognising this, we made strengthening stakeholder engagement in regulatory processes, and more broadly, a priority in 2013–14.

We are proud of our stakeholder engagement during the Better Regulation reform program. We held almost 140 meetings with stakeholders over the course of the program. Our Consumer Reference Group played an important role in improving participation for consumer representatives. Through multiple workshops we engaged with consumer representatives and the network businesses on the key factors that drive network prices. Our engagement and exchange with network businesses, and the engagement between the businesses and consumer representatives, was stronger than it had been previously. This is something we want to continue. We are grateful to each stakeholder group—from energy businesses to consumer representatives—for their time and contribution to this process. The outcomes are stronger for it.

We have now set up the Consumer Challenge Panel to embed meaningful consumer engagement in regulatory decision making. Members of this panel will challenge us and the network businesses to sharpen the focus on consumers' long term interests. This is a first for Australian regulation. The panel has already provided advice, including on how network businesses can engage better with stakeholders.

Our Customer Consultative Group continued to provide consumer perspectives on retail energy issues. The group's input helps to inform our work on building consumer confidence in energy markets.

Priority 3: Building consumer confidence in markets

It is vital that energy consumers, particularly residential and small business consumers, are confident participants in the retail energy market. The National Energy Retail Law provides a framework to improve consumer confidence and engagement in the energy market. In July 2013, New South Wales joined South Australia, Tasmania and the ACT in applying the Retail Law. We look forward to Queensland doing so in 2015. Empowering consumers is our ultimate goal. We also aim to build customer confidence in understanding that retail choice does not mean an absence of safeguards.

We pursue this goal by working directly with energy businesses to ensure they have proper systems and procedures in place. This year, for example, we authorised five new retailers to enter the market, and approved the hardship policies of those looking to sell to residential customers. We also monitor compliance with consumer protections under the Retail Law and take enforcement action if required. This work helps build customer confidence that retail businesses will meet their needs.

Additionally, we equip consumers with information so they can exercise their power of choice. Our web comparator, Energy Made Easy, is the cornerstone of this work. Energy Made Easy is a free, independent and trustworthy site that allows consumers to compare energy offers. It also provides information on the energy market, energy use and consumer rights and obligations. People visited Energy Made Easy more than 465 000 times this year, with 1.95 million page views. This year we began enhancing Energy Made Easy to make it easier for people to find energy offers best suited to them.

We also developed new information brochures for households and small businesses. We have relationships with financial counsellors, consumer advocates and small business advocates and give them energy market training so they can in turn share the information with colleagues and clients. This is particularly important to help us reach people in financial hardship or with limited English skills.

Our work in building consumer confidence remains a priority given the continuing evolution of retail energy markets. As noted above, the transition to national retail regulation will continue. Further, the deregulation of electricity prices in New South Wales on 1 July 2014, and expected deregulation in south east Queensland in 2015, will likely affect retail market dynamics. New business models are also developing to provide electricity, particularly through power purchase agreements for solar photovoltaic panels. We expect new business models will emerge rapidly as technical innovation changes the comparative costs of energy supply. We recognise the need to keep consumers informed and engaged in changing conditions.

Priority 4: Improving our capabilities

Another important aspect of our Better Regulation initiative was to improve our transparency and capabilities. Our stakeholders told us they were not aware of how we did our work. This annual report provides stakeholders with information about our organisation, how we use our resources, and our performance against a range of indicators.

We significantly improved our technical capabilities this year by establishing a technical advisors group. Our four in-house experts bring a wealth of industry expertise to our organisation and they will be invaluable in the next round of network price reviews. In conjunction with this, we also re-evaluated how we use our resources and introduced a number of new information systems, including a database for network business data. This will contain the information we are developing from our comprehensive collection of network cost and performance data, which will inform our benchmarking assessments.

MARKET OUTLOOK

For all the change that has occurred, more is on the horizon. Rule changes from the Australian Energy Market Commission's (AEMC) Power of Choice review, currently under consideration, will ultimately impact our approach to network pricing and demand management. This review will also change the way other services can be provided through more competitive metering frameworks. The forthcoming standardisation of reliability standards will fundamentally change network planning. Similarly, the AEMC's ongoing work around the Transmission Framework Review may redesign the way transmission services are delivered and paid for. We look forward to bringing our specialist expertise and knowledge to bear in these and other reform proposals.

Other factors are driving change in energy markets: increasing natural gas prices and significant demand side response reflecting changes in consumer behaviour, penetration of solar panels and industry's response to economic conditions. At the same time, technological developments around smart meters and battery storage will give end users greater control and involvement. This dynamic environment is an exciting time for energy businesses and energy market institutions alike.

New business models are emerging to complement the traditional sources of energy and network services. Our focus is to ensure that the regulation of the market and networks is cognisant of these developments and facilitates competition and consumer choice. A competitive framework is the best way of allowing innovation to flourish. In the near term, this means greater competition in metering services as the best means of ensuring those consumers who choose to take advantage of these opportunities are able to exercise that choice. Some oversight will be necessary to maintain consumer confidence in these developing markets.

In the immediate future, we are facing the largest number of concurrent network pricing decisions in our history as a number of determination processes were delayed by one year (so consumers could benefit from the new rules and associated Better Regulation guidelines). These pricing decisions will be the first to embody our new Better Regulation guidelines, which provide a solid foundation for our upcoming work. We consider the Better Regulation program will help incentivise efficient investment in the dynamic market conditions described earlier. We also look forward to more direct consumer input in the process and to the balancing perspective of the Consumer Challenge Panel. This peak workload will put significant pressure on the resources of all stakeholders. Improvements in our capabilities in 2013–14 and the experience and skill of our staff put us in a good position to meet the challenges of this workload.

This is my last annual report after six years on the board of the AER, four as Chair. In this time the AER took on substantial additional responsibilities in network regulation and in energy retail and the developing gas markets. It also built on its monitoring and enforcement activities for the electricity market rules and contributed significantly to energy regulatory policy. The work we initiated in changing the rules around network pricing, publishing guidelines on how we will apply the rules and embedding consumer input in our regulatory processes is an outstanding achievement. This work has been essential for consumers and is valuable for investors, giving certainty for expenditure within a robust regulatory framework. In this, the AER is at the forefront of international practice for the transparency of its decisions, and its initiatives for consumer engagement are in league with best practice in Australia.

On behalf of the Board, I thank the staff and in particular Michelle Groves as CEO, for their dedication, skill and passion in pursuing these efforts and their professionalism to promote the long term interest of consumers. I also thank the broader ACCC staff in the corporate, legal and economic areas who provide the AER with such solid support.

Lastly, on a personal level I would like to thank the other members of the AER board, past and present—Steve Edwell, Ed Willett, Cristina Cifuentes and Jim Cox—for their outstanding contributions and collegiate style. It has been a genuine pleasure and privilege to work with such dedicated, committed people.

Andrew Reeves
Chair
Australian Energy Regulator

PART 1
GOVERNANCE, MANAGEMENT
AND STAKEHOLDER
ENGAGEMENT



Good governance is fundamental to us helping deliver an energy market that serves consumers' long term interests. We strive to incorporate good governance in our decision making and our business practice. It means we are structured to make timely, evidence based, independent decisions. It also means we can manage risks appropriately, act with integrity and engage effectively with our stakeholders.

OUR LEGISLATIVE FRAMEWORK

The Australian Energy Regulator (AER) is an independent entity under the *Competition and Consumer Act 2010*, consisting of two state/territory members and one Commonwealth member. The Commonwealth member is also a Commissioner of the Australian Competition and Consumer Commission (ACCC). The Act sets out the process for appointing AER board members and making decisions.

Our functions are set out in the national energy legislation and rules, which include the National Electricity Law, the National Gas Law and the National Energy Retail Law.¹ The Australian Energy Market Agreement 2004 sets out the cooperative legislative framework of the states/territories and the Commonwealth. South Australia is the lead legislator, and the other jurisdictions then apply the national energy legislation.

The objectives in the national energy legislation guide our work. They are similar in each law, referring to promoting efficient investment in, and efficient operation and use of, energy services for the long term interests of energy consumers with respect to price, quality, safety, reliability and security of supply.

AER BOARD

Our three member board has extensive energy sector and infrastructure regulation experience. It makes statutory decisions, sets strategic direction, approves major policy submissions and guides staff.

Outgoing Chair— Andrew Reeves



Andrew Reeves was appointed as the Chair in July 2010, following his appointment as a board member in July 2008. His time as chair ends on 30 September 2014. Andrew also served as Chair of the Utilities Commission of Northern Territory in 2009 and 2010.

Before his AER appointment, Andrew was commissioner of the Tasmanian Government Prices Oversight Commission and regulator of the Tasmanian electricity supply industry, responsible for the sector's technical and economic regulation. Other Tasmanian responsibilities included regulating the natural gas industry and investigating the pricing policies of water authorities, the public transport operator and the motor vehicle accident personal injury insurance provider. His previous government appointments included being director of energy policy and mineral and petroleum policy (Tasmania). His first professional discipline was engineering, with postgraduate qualifications in economics from the University of Queensland and Macquarie University.

Cristina Cifuentes



Cristina Cifuentes was appointed as a state/territory board member for five years in October 2010. In May 2013 she was appointed as an ACCC Commissioner and now fills the Commonwealth member position on the AER board.

Cristina has formal qualifications in law and economics, and was a member of the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) from 1997–2006. She has held a number of directorships, including with the Hunter Water Corporation and First State Super Trustee Corporation.

¹ National Electricity Law, s. 15; National Gas Law, s. 27; National Energy Retail Law, s. 205.

Jim Cox



Jim Cox was appointed as a state/territory board member for three years from 26 June 2014. He had been an acting state/territory AER Board member since September 2013. Jim was previously the Chief Executive Officer and Full Time Member of IPART.

Jim has also held various positions in the Commonwealth and New South Wales governments, including positions with the Reserve Bank of Australia, the Department of Prime Minister and Cabinet and the Social Welfare Policy Secretariat of the Department of Social Security.

**Incoming Chair—
Paula Conboy**



Paula Conboy is our incoming Chair. She has been appointed as the full time state/territory member and AER Chair for a five year period from 1 October 2014. Paula has over 20 years' experience in public utility regulation in Australia and Canada. Most recently she was a full time member of the Ontario Energy Board in Canada from March 2010.

Paula holds a Master's of Science degree in Agricultural Economics from the University of Guelph and conducted her thesis research at LaTrobe University.

Board meetings

Board meetings in 2013–14	50 meetings
All members present*	40 meetings

* The meetings held before Jim Cox commenced as a board member were excluded

AER BRANCH STRUCTURE AND RELATIONSHIP WITH THE ACCC

The AER board exercises the AER's decision making responsibilities as set out in the national energy legislation and rules. The board is assisted by a CEO, who is accountable to the board, and by a dedicated body of staff. Our staff are, in turn, accountable to the AER CEO.

The staff and facilities of the AER are funded through the ACCC's agency appropriation. The AER has its own financial budget (see part 7). The CEO and the board are responsible for managing the AER's financial budget and other resources. The board approves the internal budget allocation according to its strategic priorities, anticipated work program and workforce requirements.

The CEO is responsible for managing the workforce plan. We had 129 staff members at 30 June 2014. Our staff is supplemented by staff in the ACCC's legal and economic division, working either partly or fully on AER matters. Other ACCC staff (particularly in the infrastructure regulation division) occasionally assist with matters before the AER board. Similarly, staff in AER branches sometimes help with matters before the ACCC.

The ACCC and AER have similar roles in regulating infrastructure, enforcing compliance, protecting consumers and educating stakeholders. However, each entity operates independently, under its own legislative framework. Where appropriate, the AER mirrors the ACCC's practices, procedures or policies, to promote an efficient and consistent approach to principles of good government administration and public policy. Examples include similar approaches to internal budgeting and risk management frameworks, general approaches to regulatory pricing considerations, and general principles for enforcement policies.

The AER and ACCC also coordinate responses to issues of common interest under the Competition and Consumer Act and the energy laws, such as door knocking by energy company marketers.

The model of two independent decision makers, with shared resources and staff, supports a common approach across regulated infrastructure sectors. We can also share expertise and overhead costs with the ACCC.

AER CEO

Michelle Groves, our inaugural CEO, has almost 20 years' experience in implementing national competition policy, energy market reform and utility regulation. Before joining the AER, Michelle worked at the National Competition Council, principally in the areas of energy reform and third party access to essential facilities. She also worked for the West Australian Government from 1988 to 1993.

Network branches

We introduced a new network branch structure this year to enhance our capabilities (see part 2). There are three new network branches:

- the **network investment and pricing branch**, headed by Chris Pattas, undertakes capital expenditure assessments, assesses pricing/tariff proposals and monitors network business compliance with regulatory requirements and incentive schemes
- the **network finance and reporting branch**, headed by Warwick Anderson, assesses the rate of return, undertakes financial modelling and manages performance and benchmarking data
- the **network operational expenditure and coordination branch**, headed by Sebastian Roberts, assesses operational expenditure and covers reset strategy and coordination.

Each branch plays a role in considering gas and electricity network revenue proposals.

Retail markets branch

The retail markets branch, headed by acting General Manager Jacqui Thorpe in 2013–14, regulates retail energy markets in the states and territories that apply the National Energy Retail Law: Tasmania, the ACT, South Australia and New South Wales. Queensland is expected to introduce the Retail Law on 1 July 2015.

Wholesale markets branch

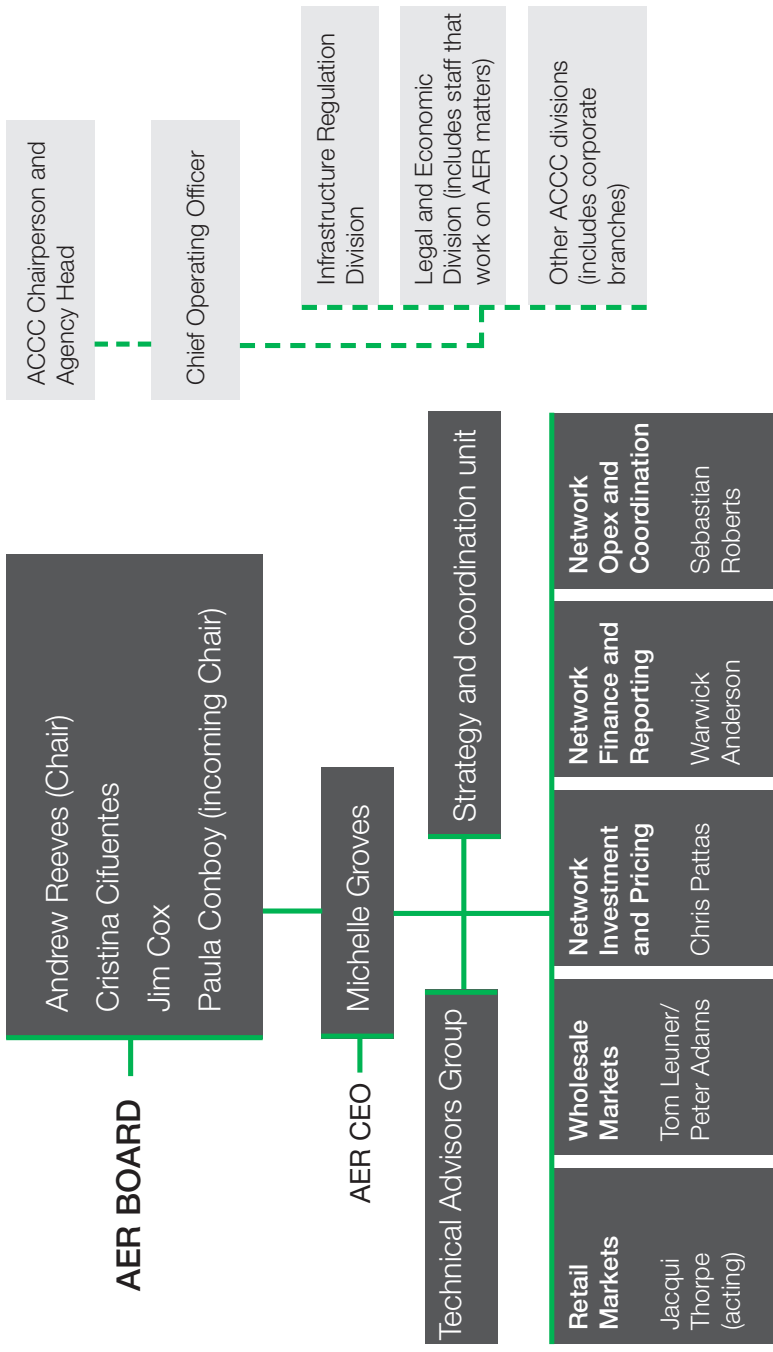
The wholesale markets branch, headed by Tom Leuner and Peter Adams (acting), monitors wholesale energy markets and enforces compliance with the gas and electricity legislation. The branch's key activities include:

- publishing weekly and occasional special reports on wholesale gas and electricity market outcomes
- encouraging a compliance culture in the industry and taking enforcement action when necessary
- conducting technical audits of generators, transmission companies and pipelines.

Other branches and units

The work of our five core branches is supported by:

- our new Technical Advisors Group, which provides technical and industry advice to the AER board and staff (part 2)
- our strategy and coordination unit, which coordinates responses to policy/rule reviews, media and speeches (part 3)
- the ACCC's legal and economic division, which includes expert regulatory economists who particularly help our decisions on the cost of capital, benchmarking and incentive schemes. The division has a significant training role and is committed to increasing and coordinating the economic expertise across the regulatory areas of both the ACCC and the AER. The division also provides legal assistance on our enforcement matters and network pricing decisions (including any subsequent Australian Competition Tribunal review of those decisions)
- the ACCC's people and corporate services division, which provides the AER with human resources, finance and governance, information technology and strategic communication services.



OUR PLANNING AND REPORTING FRAMEWORK

Our strategic priorities

Each year, around July, we publish our strategic priorities for the upcoming year. Senior staff and the board develop these priorities, which highlight focus issues, and our areas of change and innovation. Our strategic priorities for 2013–14 were:

- implementing our Better Regulation program
- strengthening stakeholder engagement
- building consumer confidence in energy markets
- improving our capabilities.

Part 2 (Report on performance) discusses our outcomes under each strategic priority. Part 5 (Performance indicators) measures our performance against our 2013–14 performance indicators and deliverables.

Statement of intent to the COAG Energy Council

The Council of Australian Governments (COAG) Energy Council is responsible for major energy reform and the national energy legislation.² The council consists of the Commonwealth, state, territory and New Zealand energy and resources ministers.

We report biannually to the ministers on our work activities, key market outcomes and, if requested, our views on reform proposals. The AER Chair and CEO usually attend part of each COAG Energy Council meeting to discuss energy market and network regulation issues.

The COAG Energy Council in March 2014 outlined what it expects from the AER under new accountability and performance frameworks. In response, the AER in June 2014 published its inaugural Statement of Intent, setting out how we will meet those expectations during 2014–15, including through our strategic priorities and wider ongoing work program. The statement also sets out deliverables and performance indicators to measure our progress in meeting expectations.

Our annual reports

Our annual reports explain our work and performance over the previous year. We published our inaugural annual report for the 2012–13 financial year. We will continue to publish a combined annual report with the ACCC to meet our formal reporting requirements under the *Public Governance, Performance and Accountability Act 2013* and s. 44AAJ of the *Competition and Consumer Act*. This includes financial statements for the combined ACCC/AER and a formal report against our program deliverables in the portfolio budget statement (see below). This AER annual report includes performance indicators, as well as information on our staff and expenditure.

Portfolio budget statements and corporate plans

Each year, as part of the Commonwealth Budget, the Portfolio Budget Statement: Treasury Portfolio budget papers sets out program deliverables and performance indicators for the AER (see appendix 2). From the portfolio budget statement, we develop an AER/ACCC organisation-wide corporate plan. We then develop an internal business plan (finalised in late June) that reflects the corporate plan and the portfolio budget statement. It contains a risk matrix to help us minimise risks to our organisation and the energy industry. AER staff base their annual individual action and performance plans on the business plan.

Our relationship with Commonwealth Treasury

We sit within the Commonwealth Treasury portfolio. Our formal financial reporting is part of the ACCC's program accountability. The Hon. Bruce Billson MP, Minister for Small Business, is the responsible minister.

² The COAG Energy Council was previously known as the Standing Council on Energy and Resources.

Our stakeholder surveys

We periodically survey external stakeholders and publish the results on our website. These surveys of consumer representatives, the businesses that we regulate, other energy bodies, departments and ministers focus on our performance, consultation, reputation and communication. Their results provide useful input to how we work, our strategic priorities and our approach to stakeholder engagement. We conducted an extensive stakeholder survey during 2013–14. The results of this year's survey, and how it compares to our previous surveys in 2008 and 2011, are set out in part 4.

Our freedom of information obligations

Agencies subject to the *Freedom of Information Act 1982* must publish information for the public as part of the Information Publication Scheme. As such, we display on our website a plan of information that we publish. The ACCC's Freedom of Information website provides more detail.

Our approach to conflicts of interest

We are proud of our ethical standards and we work hard to ensure public confidence in our decision making. We have strict procedures to identify and properly manage any personal interests that may lead to an actual or perceived conflict of interest. Staff declare any potential conflicts annually. Our general managers approve these declarations, and we keep a central record. Board members also declare statements of personal interests, and we have protocols to manage internal communications if conflicts or perceived conflicts arise.

OUR LINKS WITH OTHER ENERGY BODIES

We interact with other organisations, including government and energy market agencies, with energy market responsibilities. We work cooperatively with these organisations to achieve results in energy consumers' long term interests.

State energy ministers/departments

In addition to reporting to the COAG Energy Council (see above), the AER Chair and CEO regularly meet with state, territory and Commonwealth energy ministers. AER staff communicate frequently with energy departments, particularly on jurisdiction-specific issues and broader policy issues.

Australian Energy Market Commission

The AEMC assesses rule changes and reviews. The Commission and the AER board meet regularly, as do senior executives. We also communicate regularly with the AEMC on policy reviews and rule change proposals, and make frequent submissions to the AEMC. Further, we sometimes propose rule changes to the AEMC, which it considers in the same way it considers proposals from any party. We have a memorandum of understanding with the AEMC covering communication and coordination.

Australian Energy Market Operator

The Australian Energy Market Operator (AEMO) operates the energy markets and has network planning functions. The AEMO board and the AER board meet on occasion, and senior executives meet every second month. We also have frequent operational meetings with AEMO on wholesale energy market issues, retailer of last resort, network pricing decisions and planning decisions. We rely on AEMO for much of our market data, and use its information and forecasts in our network pricing determinations. We have a memorandum of understanding with AEMO covering communication and coordination.

Ombudsman schemes

We work closely with, and have memoranda of understanding with, all state and territory energy ombudsman schemes (in the ACT, the Civil and Administrative Tribunal — Energy and Water). We use statistics from energy ombudsman schemes to help establish our enforcement priorities, particularly under the National Energy Retail Law. We refer some matters to the ombudsman and vice versa.

State/territory energy regulators

Alongside a progressive shift towards national energy market regulation (outside Western Australia and the Northern Territory), state and territory energy regulators retain some functions. In Victoria and Queensland, which are yet to adopt the National Energy Retail Law, state regulators still monitor and enforce retailer obligations. In New South Wales³, Queensland, Tasmania and the ACT, local agencies regulate the retail price of electricity (and in New South Wales, gas). We maintain strong relationships with state regulators and have particularly focused on ensuring an efficient handover of functions when jurisdictions adopt the Retail Law.

With the ACCC, we organise the Utility Regulators Forum—a twice yearly meeting of decision makers and senior staff from all Australian and New Zealand infrastructure regulators.

Other government organisations

We work closely with a range of other government organisations and departments, including energy safety departments and agencies, energy efficiency departments and agencies, environment and climate change departments, and treasury departments.

Overseas energy agencies

We have close working relationships with overseas regulators and energy market monitoring organisations. These relationships are bolstered by our frequent staff exchanges (as noted in 'Our people'). In addition, we attend the World Forum on Energy Regulation and participate in its working groups. We are a long standing member of, and key participant in, the Energy Intermarket Surveillance Group—the peak group that coordinates communication between wholesale energy market surveillance and enforcement bodies. The group meets twice yearly and coordinates information and skills sharing among members. We provide administrative support and maintain a non-public website for the group.

OUR STAKEHOLDER ENGAGEMENT

Our engagement with energy policy bodies and other agencies is critical, but we must also understand the issues that concern the Australian community. Similarly, we recognise the need to maintain open relationships with energy businesses. Strengthening stakeholder engagement was a priority area in 2013–14.

Engagement with consumers

Recent energy policy reforms and review recommendations identified ways for us to engage more productively with energy consumers and businesses. This improvement is vital; a lack of consumer engagement in network pricing decisions makes it difficult for us to assess whether network business proposals reflect the services consumers want. More generally, an imbalance in the views reflected in regulatory decisions can reduce consumer confidence in the energy market, its regulation and its outcomes.

The regulatory framework and network businesses' proposals are complex, which can limit consumer engagement in network decisions. Consumer representative organisations highlighted their need for significant resources and specialist skills to contribute meaningfully to our regulatory reviews. This problem was recognised in recent reforms to the energy rules, and in reviews by the Merits Review Expert Panel, the Senate Select Committee and the Productivity Commission.

The reviews identified value in stronger consumer involvement in determining how energy businesses are regulated, and in undertaking regulatory processes. So, the reforms target more constructive approaches for us and energy businesses to engage with consumers. In response, we introduced several initiatives to increase consumer participation in the energy sector and our processes:

³ The New South Wales Government announced electricity retail prices will be deregulated on 1 July 2014.

- We established a **Consumer Reference Group** as part of our Better Regulation program so consumer representatives could more meaningfully participate in the process.
- We developed a **service provider consumer engagement guideline** to help network businesses deliver on their new obligations to engage with consumers when developing their regulatory proposals.
- We introduced a **Consumer Challenge Panel** to help us incorporate consumers' interests in our decisions on the prices energy network businesses charged.
- We used the **Customer Consultative Group** to help us understand consumer perspectives on retail energy market issues. We reviewed membership this year, inviting new organisations join the group.

More information on these and other initiatives is set out in part 2 (Strengthening stakeholder engagement).

The Consumer Challenge Panel and Customer Consultative Group complement wider initiatives aimed at empowering consumers. The COAG Energy Council will establish a national energy consumer advocacy body, Energy Consumers Australia, by 1 January 2015. The consumer advocate will engage with consumers and advocates and build expertise and capacity on issues that advance energy consumers' interests. It will also manage and fund grants for research to engage and influence policy development and consumer education in the markets.

Engagement with businesses

We also promoted better engagement with the regulated businesses, which is especially important given the number of upcoming network pricing decisions. Ultimately, increased engagement can inform our decision making process, to help achieve outcomes that are in consumers' long term interests.

We want to avoid an approach based solely on an iterative 'documentation exchange'. Instead, we want to focus more on inquiry, questioning and understanding. We have relationship managers at the director level to handle communication with each business, and to facilitate communication between the business and our staff. Regulated businesses can also present key aspects of their proposals to the AER board.

Given the nature of our role in wholesale and retail energy markets, we regularly contact generators, energy retailers and other energy businesses. This includes formal, issue specific contact, as well as informal, relationship building contact.

Engagement with investment groups

Regulatory certainty is key to promoting efficient investment in energy services. Uncertainty about how regulation is applied increases the risk of investment. So, we need to explain to investment groups how the regulatory regime operates and why we make our decisions.

Investment groups assess the network businesses' investments and the regulatory decisions that affect those investments. Representing investors both domestically and overseas, investment groups inform their clients about the regulatory regime in Australia and the AER's role. For our network pricing decisions, we brief investment groups and their clients at the draft and final decision stages. We publish guides to our decisions and we provide extended background material with our media releases. For the Better Regulation program, we met with investor groups and their clients—particularly on the rate of return guideline.

We will continue to build our relationship with investment groups to minimise uncertainty about how regulation is applied in the Australian energy sector, and to make our decisions more predictable. Such engagement also means we hear more from investors about their perceptions of risk for Australia, and about the reliability of market data we use in our regulatory decisions.

PART 2

**REPORT ON PERFORMANCE:
STRATEGIC PRIORITIES**



Each year we set strategic priorities as a point of focus for the upcoming 12 months. These are set to address challenges posed by our operating environment and to reflect projected market conditions. We had four strategic priorities for 2013–14:

- implementing our Better Regulation program
- strengthening stakeholder engagement
- building consumer confidence in markets
- improving our capabilities.

2.1 IMPLEMENTING OUR BETTER REGULATION PROGRAM

We commenced our Better Regulation program in late 2012. It brought together our work developing regulatory processes and systems, following important reforms to the National Electricity and Gas Rules the AEMC published on 29 November 2012.

The Better Regulation reforms involved consumers more closely in the economic regulation process, and improved how we regulate network businesses. The reforms promote efficient investment in energy network services the community values. The Better Regulation program included:

- new guidelines outlining our approach to network regulation under the new regulatory framework
- a Consumer Reference Group to help consumers engage and contribute to our guideline development work
- an ongoing Consumer Challenge Panel (appointed 1 July 2013) to help us incorporate consumer interests in revenue determination processes (see *Strengthening stakeholder engagement*).

Our guidelines operate as a cohesive package—from new annual reporting on network business efficiency, to new tools for assessing businesses' forecasts of their expenditure requirements, and stronger incentives on businesses to spend efficiently. At the same time, we broadened the range of information used to determine the rate of return that network businesses can earn on their investments. A stronger consumer engagement framework—encouraging greater consumer involvement and improved communication between network businesses and the communities they serve—overlays the reforms.

Expenditure incentives

Our capital expenditure incentives guideline and efficiency benefit sharing scheme incentivise electricity network businesses to spend efficiently and share savings with consumers. We published a draft guideline and scheme for consultation on 9 August 2013, and the final versions on 29 November 2013.

Our expenditure incentives guideline sets out the new sharing mechanism for capital expenditure. It provides a 30 per cent reward to businesses for becoming more efficient (underspending) and a 30 per cent penalty for becoming less efficient (overspending). In addition, if the business spends more than its allowed forecast we will examine the overspend ex-post; we can disallow inefficient capital overspend from the business's regulatory asset base so consumers do not fund it. Taken together, these incentives mean electricity network businesses stand to lose 30–100 per cent of any capital overspend.

We also revised the efficiency benefit sharing scheme already in place to incentivise efficient operating expenditure. The revised scheme works together with our new capital expenditure sharing scheme and our improved approach to forecasting expenditure.

Expenditure forecast assessment guideline

We published a draft expenditure forecast assessment guideline for consultation on 9 August 2013, and the final guideline on 29 November 2013. The guideline covers two new benchmarking techniques—economic benchmarking and category analysis—that overlay our existing techniques for assessing efficient expenditure. Economic benchmarking techniques measure a business's overall efficiency, while category analysis relates to expenditure drivers and the costs of conducting similar activities across businesses. We also developed a model to better forecast the expenditure to build, upgrade or replace electricity network assets in response to changes in demand. This model complements our existing model examining expenditure to replace aging assets.

We will publish annual benchmarking reports allowing comparisons across electricity network businesses. Consumers will benefit from the practices of the most efficient electricity network businesses, which set the benchmark other businesses should aim for. We will also consider benchmarking reports when determining expenditure allowances for each electricity network business.

Rate of return guideline

We published our draft rate of return guideline for consultation on 30 August 2013 and our final guideline on 17 December 2013. It sets out how we will determine the return businesses can earn on their assets, typically comprising around 50 per cent of a network business's revenues. Applied consistently, the guideline provides regulatory stability and increased certainty through enhanced transparency on key components of the rate of return and their assessment. Our approach balances the interests of stakeholders by providing opportunities for businesses to recover efficient financing costs (resulting in more stable returns for the businesses) and more stable prices for consumers.

Confidentiality guideline

We published our draft confidentiality guideline for consultation on 9 August 2013 and the final guideline on 19 November 2013. It sets out how energy network businesses may make confidentiality claims over information they submit to us. The guideline balances protecting genuinely confidential information with ensuring stakeholders can access sufficient information on issues affecting them.

Consumer engagement guideline for network service providers

We published the draft consumer engagement guideline for network service providers for consultation on 1 July 2013 and the final guideline on 6 November 2013, setting out a framework for them to better engage with consumers. It aims to help these businesses develop strategies to engage systematically, consistently and strategically with consumers on issues that are significant to both parties.

Shared asset guideline

We published a draft shared asset guideline for consultation on 30 July 2013 and the final guideline on 29 November 2013. It outlines how consumers will benefit from other services electricity network businesses may provide using the assets consumers pay for. The guideline applies when the unregulated revenues from shared assets are material—more than 1 per cent of a service provider's total annual revenue. When this occurs we will reduce a business's regulated revenues by around 10 per cent of the value of unregulated revenues earned from shared assets.

Power of Choice and the regulatory investment test for distribution

The AEMC's Power of Choice reforms are another area of significant change in network regulation. These reforms include requirements on time varying pricing (to encourage consumers to shift their energy use away from peak times), reforms to expand competition in metering and related services, and stronger incentives for demand side participation. The AEMC's rule change process to implement these reforms, and our participation in this process, occurred throughout 2013–14. Once the rule changes are final, we will give effect to them by developing new guidelines, and by applying new criteria in considering any new or amended demand management incentive scheme.

As part of our Power of Choice workstream, we published a draft regulatory investment test for distribution (RIT-D) for consultation on 5 June 2013 and the final on 23 August 2013. The RIT-D establishes consistent, clear and efficient planning processes for major distribution network investments in the National Electricity Market. It complements the regulatory investment test for transmission (RIT-T). The RIT-D is a cost–benefit test that network businesses must apply when assessing the economic efficiency of different investment options.

2.2 STRENGTHENING STAKEHOLDER ENGAGEMENT

To regulate energy markets to promote consumers' long term interest, we must understand the issues that concern the community. This year, we focused on strengthening our stakeholder engagement with consumers in network decisions through the Better Regulation program and on strategies to educate consumers on retail issues.

We also published the *AER Stakeholder Engagement Framework* and the *AER Service Charter* in 2013–14. These documents set out:

- how we will plan and implement stakeholder engagement in our energy market decision making processes
- the standard of service excellence the public can expect from the AER when making an enquiry or complaint.

Copies of the documents can be found on our website.

Renewed focus on consumers through the Better Regulation program

Greater consumer consultation

A key element of the Better Regulation program is increasing consumer involvement throughout the regulatory process. Before a network business submits its proposal, we expect it to undertake extensive and genuine community consultation. The consumer engagement guideline sets out best practice principles and a framework for network businesses to better engage with their consumers. This will guide businesses in developing engagement strategies and approaches, and assist them in preparing spending proposals that reflect consumers' long term interests.

The five key principles that underpin this framework are accessibility, transparency, communication, inclusivity and measurability. The guideline places the onus on network businesses to develop engagement strategies because they are best placed to understand their consumer base and its issues. For this reason, the guideline is not prescriptive and does not mandate a particular engagement strategy.

When we assess a network business's expenditure proposal during a determination, we will consider how the business engaged with its consumers. This directly links the quality of consultation to the expenditure proposal assessment process.

Better informed consumers

Other important aspects of the Better Regulation program are designed to improve the regulatory process and stakeholders' access to timely information.

In particular, the time allowed for a regulatory determination process was extended to allow stakeholders more time to prepare submissions and provide their views. This additional time will allow us to publish an issues paper at the start of each process. This paper should improve consumers' understanding and their engagement on network businesses' spending proposals.

Our confidentiality guideline sets out new arrangements for dealing with confidentiality claims over the information a network business submits. Before the submission of a regulatory proposal, we will meet with the business to agree on what information is confidential and why. For transparency, we will publish all information that can possibly be published for public scrutiny, while protecting genuinely confidential information.

Another measure to provide high quality information to stakeholders is the RIT-D. It is aimed at promoting efficient investment, including considering non-network alternatives if these are more efficient. The RIT-D provides an open and transparent planning and consultation process for network businesses to publicly assess all credible options, including embedded generation and demand management, before committing to network upgrades.

CASE STUDY

Full steam ahead for the Consumer Challenge Panel

The AER selected 13 individuals with a breadth of energy experience and expertise to form its Consumer Challenge Panel on 1 July 2013.^{*} This is the first time an Australian regulator created a panel to improve the rigor of its pricing decisions. The panel challenges us on how we approach issues, and identifies gaps when we consider and analyse businesses' proposals. This approach ensures we incorporate consumer interests in our decisions.

The first part of 2013–14 involved setting up the panel and designing the structure for how it will operate. The Framework for Advice document (available on our website) explains how the panel and the AER will work together. We can request advice on a particular matter, and panel members can identify their own issues. Panel members do not have to engage on all aspects of a decision.

Panel members will advise us on 23 businesses' pricing proposals over three years to 2016, via sub-panels. To date, panel members met with over 15 businesses and commenced investigating proposals. They also attended multiple consumer group meetings to hear consumers' key concerns. The panel advised on several matters, including how it expects network businesses to engage effectively with consumers. This advice was communicated to the AER and network businesses, and we published it on our website.

Panel members will meet with the AER board to discuss the critical consumer issues from early 2014–15. Further advice and panel updates will be published on our website as reset processes progress.

* One member subsequently resigned from the panel in June 2014.

Stronger consumer representation

In developing the Better Regulation reforms, we established a Consumer Reference Group (CRG) to make it easier for consumer representatives to contribute. CRG members distil key issues and information to constituents, consult and report back to us. The CRG allows for coordinated and informed input from a cross-section of consumer groups.

To strengthen consumer input into our pricing determinations and related regulatory processes, we appointed 13 members to the inaugural Consumer Challenge Panel. They will advise us on issues important to consumers, thereby providing consumer input into some of the more complex, technical issues that are considered during determinations. In particular, the panel will challenge:

- network businesses' proposals in terms of the services for consumers; particularly, whether those services are acceptable to, valued by, and in the long term interests of consumers
- the effectiveness of network businesses' consumer engagement and how this engagement informed, and is reflected in, their proposals.

The case study on page 24 provides more information about the Consumer Challenge Panel.

Engagement on retail energy market issues

We originally established an AER Customer Consultative Group (CCG) in 2009 to help us understand consumer perspectives on retail energy issues. Members representing a range of stakeholder interests highlight issues important to their constituents, which we then consider as we develop communication and engagement strategies.

With the CCG's term expiring in early 2014, we sought applications for a new CCG membership. We received 23 applications, and appointed 12 members. We held three CCG meetings in 2013–14; the group also shares information out of session.

We consulted and shared information regularly with CCG members through 2013–14, particularly as we reviewed retailers' hardship practices and continued our consumer intermediary and small business communication and engagement work.

2.3 BUILDING CONSUMER CONFIDENCE IN MARKETS

The National Energy Retail Law promotes retail competition and empowers consumers to negotiate energy contracts that suit their needs. It strengthens consumers' position in areas such as hardship, retailer failure and access to clear information on energy contracts. In 2013–14 we focused on ensuring that all stakeholders understand how the Retail Law affects them, and that our own procedures and systems appropriately support consumers and energy businesses.

The Energy Made Easy price comparison website (www.energymadeeasy.gov.au) helps consumers make more informed energy choices. Visits to the website grew significantly in 2013–14, after the Retail Law commenced in New South Wales on 1 July 2013. During this period, Energy Made Easy had more than 465 000 visits and more than 1.95 million unique page views. The site published more than 5000 retail offers in 2013–14. Energy Made Easy was named best government website at the 2013 Australian Web Awards.

Strengthening consumer understanding

During the year, we looked to strengthen consumer awareness and understanding by publishing information on matters such as how to understand retail energy offers, and consumer protections and obligations. We also developed strategic relationships with groups such as financial counsellors and community legal centres that are often the first to see disadvantaged and vulnerable energy consumers.

The audience for our consumer education work expanded when the Retail Law commenced in New South Wales in July 2013. In New South Wales, we focused on generating awareness of the Retail Law and Energy Made Easy via:

- a media and stakeholder launch at the Macquarie School of Business in July 2013
- a media campaign that included radio interviews by the AER Chair
- an editorial in the *Newcastle Herald*
- other press coverage
- coverage in publications for key stakeholder groups, including the New South Wales Tenants Union.

More generally, we continued building relationships with consumer stakeholders by attending conferences and forums organised by Financial Counselling Australia, the Consumer Utilities Advocacy Centre and the Home Energy Saver Scheme.

Households and vulnerable consumers

In July 2013 we published a new information brochure for residential consumers. *Power to You* provides useful tips and information on key energy issues such as shopping around, customer rights and using the Energy Made Easy website to find and compare offers. We worked closely with our stakeholder networks to widely distribute this brochure.

Consumers experiencing financial hardship, or who have poor English skills, have a higher risk of experiencing problems in the retail market. These consumers are often hard to reach directly, but trust intermediaries such as financial counsellors and consumer advocates to provide information.

During 2013–14 we developed a suite of training resources to increase these intermediaries' awareness of customer rights and protections under the Retail Law, and of the AER's role in the retail energy market. Our aim is to assist consumer advocates to help their clients make informed choices when shopping around for energy offers, and about energy efficiency and resolving problems. Over the coming year, we will hold training sessions for interested consumer advocates in Sydney, Canberra, Hobart and Adelaide.

Other work for consumers experiencing financial problems included a large display poster providing advice for consumers needing help paying their bills. We worked with Centrelink to distribute the poster to 214 offices nationwide in November 2013.

Small business energy consumers

Small business energy consumers are significant stakeholders in the retail energy market. During 2013–14 we worked with small business advocates to identify energy issues small businesses wanted information on, and developed messaging and communication strategies to reach this audience. This work culminated in June 2014 with a new information brochure for small businesses, *Energy and Your Business*. The brochure provides tips and information on shopping around for energy offers, energy efficiency tips, and small business energy rights.

Fostering regulatory compliance

One of our key roles is to build consumer confidence by monitoring energy businesses' compliance with the law and taking timely enforcement action when appropriate. We maintain close relationships with energy ombudsman schemes in all jurisdictions, allowing us to identify market issues and focus our resources. We published our first annual compliance report (for 2012–13) on 26 November 2013, and an additional report on the outcomes of our review of small customer billing practices in February 2014. We will release a report on 2013–14 activities in November 2014.

We also published our first annual Retail Market Performance Report in November 2013, including our first report on energy affordability. The affordability report will monitor electricity and gas prices over time, as well as the proportion of income benchmark households spend on electricity and gas.

We engage closely with new energy providers to ensure they have appropriate consumer protections in place. In 2013–14 we authorised five new retailers to enter the market, and approved the hardship policies of those looking to sell to residential customers, as required under the Retail Law. The policies cover avenues of support, such as flexible payment options, energy efficiency information and help to access government rebate and concession programs.

2.4 IMPROVING OUR CAPABILITIES

The fourth strategic priority we set for 2013–14 was to improve our capabilities. To progress this, we introduced measures to track our performance and accountability. The measures enhance transparency for stakeholders and help us maintain and improve our performance. We also strengthened our network regulation processes and systems to deliver the Better Regulation reforms.

Accountability and transparency

Two key stakeholders, COAG and the COAG Energy Council, provided high level direction in 2012 to strengthen our performance and accountability frameworks. In response, we developed measures in 2013–14 to increase transparency around our work program, the effectiveness of our performance and the allocation of our resources. These measures included:

- setting target deliverables and performance indicators, supplementing our 2013–14 strategic priorities and work program (published in July 2013).
- publishing our inaugural AER annual report for 2012–13 in September 2013. The report expands on our major work program activities, program budgets and allocation of resources. The joint ACCC–AER annual report contains a detailed funding breakdown of the combined ACCC and AER.

This 2013–14 AER annual report continues our commitment to enhanced transparency. Our performance against 2013–14 performance indicators is set out in part 5.

We also commissioned a third stakeholder survey during the year. Overall, parties viewed our performance positively, identifying areas where we improved and also raising some areas where we can improve further (see part 4). The next section outlines some of the steps we took in 2013–14.

We will continue building on our transparency and accountability measures. We published our *Statement of Intent for 2014–15* on 30 June 2014, setting out our strategic priorities and work program, with performance measures, for the forthcoming year. We published this in line with the *Statement of Expectations for the AER* issued by the COAG Energy Council. We report on our activities, along with market conditions, to the Council every six months.

Improving processes and capabilities

We recognise the importance of reviewing internal capabilities and processes, as reflected in a series of reviews conducted during the year.

Implementing new systems

The Better Regulation reforms allow us to use new techniques and metrics to analyse network businesses' expenditure forecasts (a key part of the determination process). We outlined two new techniques—category analysis and economic benchmarking—in our expenditure forecast assessment guideline (see Better Regulation) to strengthen our approach.

The change required us to gather new information from network businesses, so we introduced a new reporting framework using regulatory information notices. We drafted, consulted on and issued the first annual reporting instruments this year. We received responses on 30 April 2014 and 2 May 2014. At the same time, we developed our capability to collect, store and report on data we receive from network businesses. A new database, which we commenced in December 2013, will be tested and implemented over the second half of 2014.

We will use these new techniques and data in network determinations in 2014–15. We will also use the metrics in our inaugural benchmarking report (see part 3).

Improving capabilities

Alongside new information and systems, we improved our capabilities in energy regulation more generally. In particular, we evaluated how to use existing resources better and strengthen our technical expertise.

We restructured our networks branches this year, moving from a process based structure (delineated by type of regulation work, such as price reviews or ongoing work) to a more functional structure. This change created three network branches:

- the **network investment and pricing branch**, which undertakes capital expenditure assessments, assesses pricing/tariff proposals and monitors network business compliance with regulatory requirements and incentive schemes
- the **network finance and reporting branch**, which assesses the rate of return, undertakes financial modelling and manages performance and benchmarking data
- the **network operational expenditure and coordination branch**, which assesses operational expenditure and covers reset strategy and coordination.

The new structure encourages consistency across regulatory processes and energy businesses by allowing specialisation by topic. Each branch will contribute as we consider network revenue proposals, with a central coordinator for each process.

We also brought new technical and industry expertise into the organisation, complementing existing expertise. The newly established senior technical advisors group addresses an area of weakness identified during the 2011 stakeholder survey and the Productivity Commission's Electricity Network Regulation Framework review.

The technical advisors group improves our use of external consultants, and helps implement regulatory approaches developed under the Better Regulation program. Further, the technical advisors strengthen how we engage with network businesses and other stakeholders. They are also developing our expertise via internal capability building work, by training staff and by advising on improved processes and analytical methods. The case study on page 29 provides more information about the technical advisors group.

Technical Advisors Group

We established a technical advisor group in late October 2013 to bolster industry expertise, particularly in power system engineering. We appointed four senior industry experts with over 100 years of combined experience: Anthony Seipolt, John Thompson, Mark Wilson and Yili Zhu.

Together, the technical advisors have extensive Australian and international industry expertise in:

- network planning and design
- network asset management and asset strategy
- network operations including system control
- risk management, business development, project management and delivery
- economic regulation of energy networks, including regulatory compliance, incentive scheme design, benchmarking and performance assessment
- policy development and market design for the energy sector.

Each advisor worked in electricity network businesses during their career and they have a mix of experience in generation and energy retailing. The depth and diversity of backgrounds provides a complementary matrix of skills. The technical advisors work collaboratively to provide independent, high quality advice to the AER board and staff.

To date, the technical advisors helped develop new benchmarking metrics and helped assess the Heywood contingent project and the ActewAGL cost pass through application. In 2014–15 the technical advisors will focus on the current regulatory determinations for electricity networks and on redesigning the electricity distribution service target performance incentive scheme.

PART 3
**REPORT ON PERFORMANCE:
ONGOING WORK PROGRAM**



Our strategic priorities identified our points of focus during 2013–14. But our wider ongoing functions remained critically important and accounted for a significant portion of our operations in 2013–14. We began implementing the principles of Better Regulation, commencing a record number of network pricing decisions. We also assumed responsibility for enforcing the National Energy Retail Law in our fourth jurisdiction, New South Wales. At the same time, we continued significant work in wholesale markets and undertook a comprehensive compliance and enforcement program.

3.1 ENERGY NETWORKS

2013–14 overview

- We made a final decision for the electricity transmission network business in Victoria (SP AusNet) for the period 1 April 2014 to 31 March 2017: our last decision under the old rules.
- We made a determination for AEMO in its role as provider of transmission services in Victoria for the period 1 July 2014 to 30 June 2019.
- We made transitional decisions under the new rules for six electricity distribution and transmission network businesses in the ACT, New South Wales and Tasmania for the period 1 July 2014 to 30 June 2015.
- We published framework and approach papers for electricity transmission networks in New South Wales and Tasmania, and electricity distribution networks in New South Wales, Queensland, South Australia and the ACT.
- We began the framework and approach process for the next review of Victorian electricity distribution networks by publishing a draft framework and approach paper for comment.
- We reviewed 19 tariff applications from network businesses in New South Wales, the ACT, Queensland, South Australia, Tasmania and Northern Territory for tariffs that apply in 2014–15.
- We reviewed 15 tariff applications from network businesses in Victoria for tariffs that apply in 2014, including for Victorian advanced metering infrastructure.
- We assessed 11 cost pass through applications from electricity and gas network businesses.
- We approved a contingent project allowance for ElectraNet to upgrade the South Australia to Victoria (Heywood) electricity transmission interconnector.
- We published our 2012 comparative performance report for the Victorian gas distributors.
- The Australian Competition Tribunal upheld one regulatory decision and remitted one regulatory decision back to us.
- We released a revised Network Service Provider Registration Exemption Guideline.
- We approved revised cost allocation methods for five distribution network businesses, governing how they can allocate costs to their services.

Our role in networks

Our role in network regulation falls into two broad categories. First, we determine the amount of revenue that network businesses can recover based on proposals put forward. Second, we also undertake several other regulatory roles; some are regular (such as annual tariff approvals) while others are more ad hoc (such as cost pass throughs). We also finalised our work on the Better Regulation program this year (see part 2).

Network pricing reviews

Network businesses must periodically (typically every five years) submit regulatory proposals (electricity) and proposed access arrangements (gas) to us for approval. We assess the proposals and justify our pricing decisions against the legislative criteria. We must also account for issues raised in consultation. Network businesses can appeal our decisions on merit grounds to the Australian Competition Tribunal.

To determine network prices and allowable revenue, we account for the businesses' need to provide efficient and appropriate levels of transmission or distribution services. A business's total revenue must cover at least the costs that a prudent service provider acting efficiently would incur. These costs include capital costs (such as for wires, poles, pipes and buildings) and operating costs (such as for labour and maintenance). The revenue should also allow for an appropriate return on capital.

Oversight of network regulation

Network regulation extends beyond making price determinations and approving access arrangements. Our other roles include:

- **tariff assessment**—We review network tariffs for electricity distribution businesses, and for gas transmission and distribution businesses, annually.
- **cost pass throughs**—A network business can apply to pass through to customers costs arising from events outside its control and not anticipated when its price determination was made.
- **access (connection) disputes**—We resolve customers' disputes with distribution businesses on the cost and the terms and conditions of connection offers.
- **customer and stakeholder complaints**—We investigate complaints and advise the complainants of our findings. If we find a breach of the business's regulatory obligations, we may take enforcement action.
- **regulatory investment test for electricity**—We monitor and enforce compliance of the network businesses applying the regulatory investment test for transmission (RIT-T) and distribution (RIT-D).
- **incentives for improved performance**—We develop incentive schemes for network businesses to improve their performance, administer the schemes and ensure compliance.
- **guideline development**—We develop and amend guidelines as required.
- **regulatory decision reviews**—Network businesses can seek a merits review of our decisions by the Australian Competition Tribunal. If the Tribunal reviews a network pricing decision, we are a party to the review. We must act as a model litigant, using our best endeavours to help the Tribunal make its decision. The Tribunal can remit a regulatory decision (or aspects of a decision) to us for further consideration. Further, the courts can review our decisions on administrative grounds.
- **performance reporting**—We publish information on network businesses' revenues, prices, expenditures, operations and service delivery. We also report also on network reliability and customer service, and businesses' performance against targets. From 2014, we will publish benchmarking reports for network businesses.

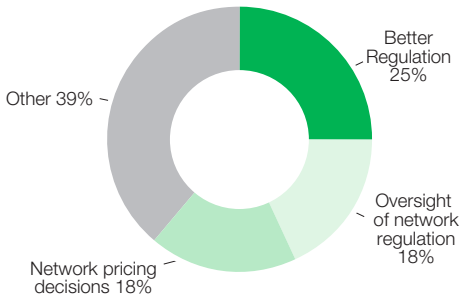
Our resources used on energy networks

In 2013–14 we dedicated approximately 61 per cent of our staff time and spent 87 per cent of our consultancy and external legal expenditure on energy network issues. This reflects the inherently complex issues involved in network regulation.

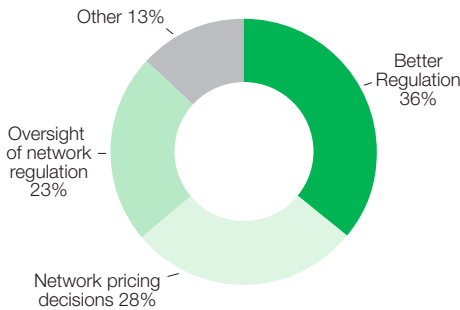
Better Regulation accounted for a quarter of staff time and 36 per cent of expenditure. Completing the final Better Regulation guidelines and implementing the program required significant staff time and external inputs.

Staff time was evenly split on network pricing decisions and overseeing network regulation. The small number of network pricing decisions and the transitional arrangements allowed more time to be spent on Better Regulation. Similarly consultancy and external legal expenditure for network pricing decisions was proportionally lower than usual. The balance of resources used will shift heavily back to network pricing decisions as the AER enters into an intensive period of network determinations.

Staff time for networks, 2013–14



Consultancy and legal expenditure for networks, 2013–14



Outcomes and work completed in 2013–14

Electricity networks

This year saw us transition from the old to the new rules in network regulation. We:

- completed the final revenue determination for electricity transmission in Victoria under the old rules
- made a determination for AEMO in its role as a provider of transmission services in Victoria
- made transitional determinations for six electricity distribution and transmission network businesses in the ACT, New South Wales and Tasmania, that provided placeholder revenue allowances to allow for the determination process under the new rules
- began implementing the Better Regulation reforms, preparing for the largest number of concurrent resets in our history.

The AER commenced 15 electricity revenue reset processes in 2013–14; 12 in distribution, and three in transmission (including the Queensland to New South Wales interconnector). We published framework and approach papers, embodying our Better Regulation principles, for electricity transmission networks in New South Wales and

Tasmania, and electricity distribution networks in New South Wales, Queensland, South Australia and the ACT. We also commenced the framework and approach stage for the Victorian electricity distribution businesses.

Network prices continue to moderate, primarily reflecting lower interest rates and our revised approach to determining rates of return. We rigorously test businesses' proposals to augment and replace their networks, and strengthened our in-house technical expertise to better engage with businesses on these matters. This year we focused on developing and implementing improved data systems and analysis techniques, ahead of the next round of regulatory reviews.

SP AusNet transmission revenue determination for 2014–17

The SP AusNet transmission revenue determination for 2014–17, the final one made under the old rules, followed 11 months of consultation with stakeholders. The decision will reduce average transmission charges in Victoria by around 5 per cent annually over the next three years.

Our final decision reduced SP AusNet's revenue proposal by rejecting \$40 million (7 per cent) of proposed operating expenditure as inefficient. We also reduced the rate of return, in line with lower interest rates observed in the financial markets.

Placeholder determinations for ACT and New South Wales distribution network businesses

We made transitional decisions for distribution network businesses in New South Wales and the ACT, setting out placeholder revenue allowances for 12 months to 30 June 2015. A full determination process was delayed for one year so consumers could benefit from the new rules and associated Better Regulation guidelines.

We did not accept the original revenue proposals for the transitional year. In particular, we determined the rate of return using the Better Regulation guideline, which was different to the approach the businesses proposed. Our transitional determinations reduced distribution charges, which in turn, should reduce the average electricity charge for residential customers in 2014–15 by \$19 in the ACT and by \$33–47 in New South Wales.

Placeholder determinations for New South Wales and Tasmania transmission network businesses

We made transitional decisions for transmission network businesses in New South Wales and Tasmania, setting out placeholder revenue allowances for 12 months to 30 June 2015.

Like the transitional determinations for distribution businesses, we did not accept the original revenue proposals for the transitional year. Instead, we determined the rate of return using our guideline. The lower transmission charges should reduce the average electricity charge of residential customers in 2014–15 by \$4 in New South Wales and by \$20 in Tasmania.

Gas pipeline and networks

We conduct the economic regulation of gas pipelines in all Australian states and territories except Western Australia. Various levels of regulation apply across pipelines, based on their importance and levels of competition. Gas transmission and distribution businesses must periodically (usually every five years) submit an access arrangement for approval. We did not review any access arrangements during 2013–14. However, we undertook preparatory work and commenced the review of the New South Wales gas distribution access arrangement.

Merits review of regulatory decisions

The Australian Competition Tribunal reviewed three of our regulatory decisions:

- Victorian advanced metering infrastructure (electricity distribution)
- APA GasNet's Victorian Transmission System (gas transmission)
- Multinet's Victorian access arrangement (gas distribution).

We also published an amended SP AusNet 2011–15 distribution determination in August 2013, to account for changes to the revenue requirement pursuant to an order of the Federal Court of Australia. The Court ordered we index the regulatory asset base for inflation over a period of six and a half years from June 2004.

Victorian advanced metering infrastructure, 2012–15

The Tribunal decision on Victorian advanced metering infrastructure (AMI) was pending when we published our annual report last year. The Tribunal was considering our approach to determining how much AMI expenditure SP AusNet could pass on to consumers. The core issue was whether it was reasonable for SP AusNet to recover cost overruns due to its choice in technology. Other Victorian distributors were delivering AMI at significantly lower cost.

This was the second time this issue was before the Tribunal. SP AusNet challenged our original October 2011 determination not to allow it to pass through all of the money spent on AMI infrastructure. The Tribunal found we erred in some aspects of our approach to the decision, but not to the extent claimed by SP AusNet and required us to re-examine the matter. In 2012–13 we released a revised decision, reaffirming the main aspects of our previous decision by rejecting the significant increases to expenditure relating to cost overruns, but allowing more modest increases required by the Tribunal.

SP AusNet challenged the revised decision, but the Tribunal dismissed SP AusNet's second legal challenge in August 2013. The Tribunal affirmed our decision that consumers should not bear the cost of SP AusNet's failure to re-evaluate its choice of communications technology once it realised the costs were significantly higher than initially expected. This decision ultimately upheld our original (2011) decision to use benchmark costs to give SP AusNet an allowance comparable to that forecast by the other Victorian distributors.

SP AusNet lodged further appeals, including an appeal of the Tribunal's decision to the Full Federal Court.

APA GasNet's Victorian access arrangement, 2013–17

APA GasNet applied to the Tribunal to review our decision rejecting proposed price increases for gas transmission services in Victoria for 2013–17. It asserted the prices we determined were too low for it to efficiently operate its pipelines.

In September 2013, the Tribunal upheld the two key parts of our decision that APA GasNet challenged:

- the proposed method of collecting regulatory depreciation on pipeline assets (\$87 million)
- the rate of return that could be earned on those assets (\$36 million).

APA proposed a method of regulatory depreciation that would have increased prices over the five year period. The Tribunal's decision rejected this approach. The Tribunal also confirmed the rate of return we set, which was lower than the rate of return in APA GasNet's previous access arrangement, was appropriate. The rate of return is a contested area of regulation and this decision supports our approach.

However, the Tribunal also required us to remake the decision on two other matters—the opening value of APA's asset base in 2013 and whether an adjustment should be made to account for the delay in giving effect to lower prices. The Tribunal determined the construction of the relevant legal provisions did not allow the AER approach. The Tribunal's decision highlights problems with the current drafting of the National Gas Rules. It is our view that the current rules do not reflect good regulatory practice on the opening value of the asset base. We submitted a rule change proposal on this matter to the AEMC in November 2013.

Our remade access arrangement decision in November 2013 increased APA GasNet's revenue for 2013–17 by around \$13.7 million, accounting for the Tribunal's decision. APA GasNet's tariffs will still be lower over the next four years than they were in 2008–12; specifically, the average reference charges will be 7.6 per cent lower than in 2008–12. Across the period, a typical residential gas bill should fall by up to \$4.40 each year.

Multinet's Victorian access arrangement, 2013–17

We issued a remade access arrangement decision for Multinet's Victorian gas distribution network in October 2013, following directions from the Tribunal to increase the opening capital base by around \$30 million. The Tribunal found in July 2013 that the AER erred in using the Essential Services Commission's capital expenditure benchmark for 2012 to determine Multinet's opening capital base. The remade decision means average reference service distribution charges will be 3.2 per cent higher than in 2008–12. Across the period, a typical residential gas bill should increase by up to \$3 (0.3 per cent) on average each year, compared with a \$9 increase proposed by Multinet.

Performance reporting on network businesses

Reporting on financial performance, reliability and customer service helps the public contribute to our decision making and ensures accountability for businesses' performance.

Our 2012 comparative performance report presented financial and service quality performance results for Victoria's three gas distributors: Envestra, Multinet and SP AusNet. It also included the businesses' performance trends since 2004. This report was the last in a series of distribution service performance reports for the Victorian gas distribution businesses developed under the Essential Services Commission of Victoria's regulatory framework. In the future our gas performance reports will include all gas businesses for whom we are responsible for regulating and will be based on our regulatory framework.

In 2014–15 we will publish a performance report on all electricity distribution businesses in the National Electricity Market (NEM). We established procedures to collect consistent information from network businesses to support network performance and benchmarking reports, via the Better Regulation program. This information will extend the scope and quality of our reporting in future. We published the information network businesses provided to date, without analysis, on our website.

Regulatory investment tests

The RIT-T and RIT-D aim to identify investment options that maximise economic benefits and, when applicable, meet relevant reliability standards. These tests should be applied transparently and should promote competitive neutrality between network and non-network solutions. We have a role in resolving disputes over how the tests are applied. Further, if a network business requests, we can determine whether its assessment satisfies the test. In 2013–14 we undertook a variety of work, including the following:

- **South Australia to Victoria (Heywood) interconnector upgrade RIT-T**—In its revenue proposal for the 2013–18 period, ElectraNet proposed a contingent project for the Heywood interconnector upgrade. We approved the proposal subject to ElectraNet including triggers, including that the project assessment satisfies the RIT-T. In September 2013, the AER published its determination that the upgrade satisfies the RIT-T.
- **Finalising the RIT-D**—On 23 August 2013, we published the RIT-D and accompanying application guidelines. The RIT-D establishes consistent, clear and efficient planning processes for distribution network investments and applies to investment projects over \$5 million.

We also monitored compliance with regulatory investment tests (see *Compliance and enforcement*).

Other regulatory work

Annual network tariff assessment

We review network tariffs to ensure changes do not breach revenue or pricing limits under regulatory determinations or approved access arrangements. We also ensure tariffs reflect underlying costs, so they are consistent with applicable pricing principles.

In 2013–14 we reviewed 28 tariff applications applicable in 2014–15 (2014 for Victorian network businesses) — 13 in electricity and 15 in gas. We also approved new flexible (time varying) tariffs for Victorian electricity distribution networks, following the Victorian Government's initiative to allow consumers with AMI to move to these tariffs.

AMI charges assessment

In 2013–14 we approved revised AMI charges for the metering infrastructure the Victorian electricity distribution network businesses provided to small consumers. The businesses revise the charges each year based on actual expenditure and any forecast expenditure updates. We also approved the setting of charges for AMI remote services. These services were previously provided through a field officer visit but now are offered remotely to consumers using AMI technology.

Cost pass throughs

A network business can apply to pass through to customers costs arising from events outside its control and not anticipated when its price determination was made. Before approving any pass through amounts, we must consider the efficiency of the network business's decisions and all action to mitigate costs. In 2013–14 the AER assessed 11 cost pass through applications from electricity and gas network businesses. SA Power Networks applied to pass through vegetation management costs arising from an unexpected increase in vegetation growth rates when the drought broke in 2010, for example. The application satisfied the Electricity Rules, but we reduced the proposal by \$5.5 million.

Other pass through applications from electricity businesses included:

- Ergon Energy and Energex—solar bonus scheme
- TransGrid and ElectraNet—network support costs
- SP AusNet—easements tax change event.

We also considered cost pass through applications for New South Wales, ACT and Queensland gas businesses. Jemena Gas Networks (NSW) and ActewAGL sought pass throughs for carbon costs and the cost of replacing lost gas from pipelines. ActewAGL also sought cost pass throughs for territory taxes and levies, while Jemena included an adjustment for a lower license fee in its application. APT Petroleum Pipelines Ltd, which operates the Brisbane to Roma pipeline, applied to return money to customers (through lower reference tariffs) due to lower than forecast carbon costs.

Approval of cost allocation methods

The Electricity Rules specify electricity network service providers must allocate costs in accordance with cost allocation methods (CAM). These prescribe how they will allocate their costs between the different services that they provide. Allocating costs in this way prevents cross-subsidisation between regulated distribution services and other non-regulated services.

The AER assesses the CAMs proposed by network service providers, to ensure they comply with the requirements of the National Electricity Law and Electricity Rules and our Cost Allocation Guidelines. We approved amended CAMs for Ausgrid, Essential Energy, Endeavour Energy, CitiPower and Powercor in 2013–14.

Review of guidelines and incentive schemes

Service target performance incentive scheme

We report annually on whether network businesses improve their reliability or fail to achieve their service targets, through the service target performance incentive scheme (STPIS). There are separate schemes for transmission and distribution businesses.

In 2012–13 we reviewed the transmission scheme. The revised scheme (version 4), set out in December 2013, first applied to SP AusNet and will progressively apply to other businesses as they enter new regulatory periods. We applied certain components of the revised scheme to the New South Wales and Tasmanian transmission networks in their transitional year, commencing on 1 July 2014.

We commenced a preliminary review of the STPIS for distribution businesses including discussions with the Energy Networks Association. However, we are waiting on the findings from AEMC and AEMO reviews, before we can proceed much further. The AEMC's Distribution Reliability Review is developing common definitions for expressing distribution reliability targets and outcomes, at the COAG Energy Council's request. Meanwhile, AEMO is determining the value of customer reliability.

Demand management incentive scheme

Under the demand management incentive scheme, we assess whether distribution network businesses can recover expenditure on demand management initiatives that comply with the scheme's criteria. We approved total expenditures of \$565 000 on six projects (for 2012) for: Citipower, Jemena, Powercor, SP AusNet and United Energy. We publish annual reports on how businesses use their demand management allowances. Overall, network businesses used only a relatively small proportion (13 per cent) of their total allowances of \$36 million during their current regulatory periods.

Victorian F-factor amount determinations

The F-factor scheme established by the Victorian Government in June 2010 provides incentives for distribution businesses to reduce the risk of, and loss or damage caused by, fire starts from electricity infrastructure. Businesses can only receive a reward for sustained and continuous improvement. The benchmark fire-start targets will be tightened in future years. In September 2013 we found all Victorian distributors were entitled to a reward because the number of fire starts was below target for 2012.

Our draft decision on 2013 F-factor incentive payments in June 2014 found outcomes ranging from a \$2.4 million penalty for Powercor to a \$2 million reward for SP AusNet.

Electricity Network Service Provider Registration Exemption Guideline

In August 2013 we published a revised Electricity Network Service Provider Registration Exemption Guideline which sets the requirements for registration exemption and the AER's conditions for operating privately-owned electricity networks. The revised guideline clarified our approach to network exemptions, and significantly many of the changes were intended to ensure the classes of network exemptions align with our retail exempt selling guideline, which we amended in May 2013. Most amendments did not depart substantively from our previous approach.

Other guidelines

We deferred an intended review of network pricing, demand management and distribution ring-fencing guidelines, given the AEMC's ongoing consultations on network pricing and demand management rule changes as well as metering and related reforms. In the circumstances, we focussed on progressing high priority projects (like implementing the Better Regulation program and preparing for upcoming network pricing decisions).

Access and connection disputes

We published a factsheet and a detailed information document to inform customers on our process in resolving disputes for gas and electricity connection. During this financial year, we received five disputes for electricity connections; four disputes were resolved and three customers' electricity charges were substantially reduced. There was also one dispute over a gas connection.

3.2 RETAIL ENERGY MARKETS

2013–14 overview

- We became the retail energy market regulator in New South Wales when the National Retail Energy Law commenced on 1 July 2013.
- We developed new training and educational material on energy rights for consumer advocates, households and small business customers.
- We developed strategic relationships with groups such as financial counsellors and community legal centres that are often the first to see disadvantaged and vulnerable energy consumers.
- We published our first annual Retail Market Performance Report, including a report on energy affordability.
- We published four quarterly performance reports on the retail energy market, including information on contacts, customer hardship, disconnection and reconnection, and customer complaints.
- We started redeveloping the Energy Made Easy website, which will be introduced in the second half of 2014, making it easier for consumers to compare offers.

Our role in retail energy markets

The AER is responsible under the National Energy Retail Law for regulating retail energy markets in New South Wales, South Australia, the ACT and Tasmania (electricity only). We:

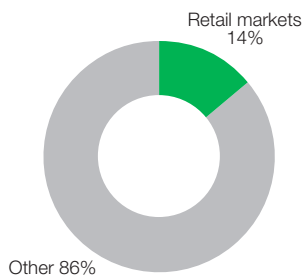
- **oversee retail market entry and exit** by assessing applications from businesses looking to become energy retailers, granting exemptions from the requirement to hold a retailer authorisation and administering a national retailer of last resort scheme to protect consumers and the market if a retailer fails
- **monitor and enforce compliance** (by retailers and distributors) with obligations in the Retail Law, Rules and Regulations (set out in *Compliance and enforcement* below)
- **report on the performance** of the market and energy businesses (including information on energy affordability)
- **approve customer hardship policies** that energy retailers must implement for customers facing financial hardship and looking for help to manage their bills
- **maintain an energy price comparator** website (www.energymadeeasy.gov.au).

We do not set retail energy prices; rather, we guide and inform energy consumers so they can understand the range of energy offers available, make better choices about those offers, and be aware of their rights and responsibilities when dealing with energy providers. Our Energy Made Easy website is a key vehicle for providing this information in jurisdictions where the Retail Law operates. It includes a price comparator that shows all generally available offers to consumers, an electricity use benchmarking tool that allows households to compare their electricity use with that of similar sized households in their area, and information on the energy market, energy efficiency and consumer protections.

We also produce publications (including new publications for consumer and consumer intermediaries) and web information on areas of the Retail Law. Our Customer Consultative Group is a source of information on important issues for energy consumers (see part 2).

Our resources used on retail energy markets

Figure 3.1: Staff time for retail markets, 2013–14



In 2013–14 we spent approximately 14 per cent of our staff time on retail energy markets work. The majority of staff time was focused on the New South Wales retail energy markets as well as consumer education and engagement.

Outcomes and work completed in 2013–14

This year our role expanded into New South Wales when the Retail Law commenced on 1 July 2013. An ongoing AER strategic objective is to increase consumers' confidence to actively participate in the retail energy market. During 2013–14 our work included several activities to achieve this goal (see part 2).

Energy Made Easy

Our energy price comparison website, Energy Made Easy (www.energymadeeasy.gov.au), has been running for two years. It is a major resource for consumers looking to make more informed energy choices. Currently, residential and small business customers in New South Wales, South Australia, Tasmania and the ACT can visit Energy Made Easy, enter their postcode and immediately compare gas and electricity offers available to them.

Retailers must enter all generally available offers onto Energy Made Easy within two business days of making an offer available to consumers. This timeframe ensures the website gives consumers up-to-date and complete information on the products available.

Energy Made Easy also contains useful information on energy, including a tool that households can use to compare their energy usage with the typical usage of a similar household, and information about consumer rights, energy contracts and the market more generally.

Visits to the website grew significantly in 2013–14, once the Retail Law commenced in New South Wales on 1 July 2013. Throughout the year, Energy Made Easy had more than 465 000 visits and more than 1.95 million unique page views. More than 5000 offers were published in total over the period—around 150 in the ACT, 50 in Tasmania, 1200 in South Australia and 3600 in New South Wales.

We are planning to improve the website in the second half of 2014, making it easier for consumers to compare offers. The changes follow feedback from key stakeholders, including consumer groups, industry and participants in usability testing and will include:

- a more user-friendly results page, including improved options to filter results, so consumers can find suitable offers more easily
- a 'how to use this website' video and user-friendly tips to help consumers find the right offer for them
- changes to the homepage and content pages, and improved information architecture
- simplifying the process for retailers to enter their offers and to incorporate complex time of use offers.

During 2013–14 we also commenced work on new electricity bill benchmarks, which will be included in energy bills from retailers, and published on the website. These will be published in 2015.

Authorisations and exemptions

The Retail Law requires any party selling energy 'to a person for premises' to hold a national retailer authorisation, or to be exempt from that requirement. We are responsible for granting those authorisations and for the Retail Law's exempt selling regime. A national retailer authorisation allows a party to sell electricity or gas to any consumers in jurisdictions where the Retail Law operates.

Authorisations

Parties seeking an authorisation to sell energy must demonstrate their capacity and suitability to operate as a retailer. When we receive an application, we publish it on our website and seek submissions from interested parties, before deciding whether to grant an authorisation. We granted retailer authorisations in 2013–14 to:

- People Energy Pty Ltd for electricity
- Pooled Energy Pty Ltd for electricity
- CoZero Pty Ltd for electricity
- CovaU Pty Ltd for gas and electricity
- Macquarie Bank Ltd for electricity.

The AER may also approve transfers, surrenders and revocations of retailer authorisations. On 14 March 2014 we approved the surrender of Australian Power and Gas's (APG's) gas and electricity authorisations. APG's customers were transferred to AGL Energy, which bought the business in October 2013. On 30 June 2014 we amended the surrender date so that the surrender takes effect on 30 June 2014, or once all APG's customers have transferred (whichever is later), but no later than 14 September 2014.

Exemptions

The Retail Law's exempt selling framework includes classes of deemed and registrable exemptions, along with individual exemptions. It is another mechanism through which a party may legally sell energy to another. It generally applies when the energy seller does so not as its main business activity (as an authorised energy retailer would), but rather as an additional service or aspect of its primary business (for example, a caravan park operator charging for the cost of energy at individual sites).

Our exempt selling guideline outlines the classes of deemed and registrable exemptions that apply, as well as the process for obtaining an individual exemption. We also have publications for exempt sellers and their customers, which explain simply how the framework applies and each party's rights and obligations. At 30 June 2014, we registered 1388 exemptions (including individual exemptions) for New South Wales, South Australia and the ACT (Tasmania did not adopt the exempt selling regime).

We can also grant an individual exemption for specific activities falling outside the deemed or registrable classes of exemption. It is subject to a consultation process similar to that for an application for authorisation. We released an issues paper in October 2013 outlining an approach to regulating businesses offering new and innovative ways of selling energy ('alternative energy sellers'). We proposed that individual exemptions may appropriately regulate many alternative energy sellers, for example where the energy sold to customers is discretionary and supplementary. In 2013–14 we granted 16 individual exemptions, all to businesses selling electricity through solar power purchase agreements.

Hardship policies

Under the Retail Law authorised retailers must operate a customer hardship policy to help residential customers experiencing payment difficulties to better manage their energy bills. We assess the hardship policies of any new entrant retailers, and monitor and assess the compliance of all approved hardship policies. We also assess retailers' amendments to approved policies. In 2013–14 we approved hardship policies for:

- CovaU Pty Ltd

- Pooled Energy Pty Ltd
- Pacific Hydro Pty Ltd.

We also approved amendments to Aurora Energy and Qenergy's hardship policies.

Retailer of last resort

We are responsible for ensuring consumers continue to receive supply if their retailer fails. Our retailer of last resort (RoLR) functions include:

- registering default and additional RoLRs (parties to which consumers could be transferred)
- maintaining and publishing a register of RoLRs
- appointing designated RoLRs in relation to RoLR events
- publishing a RoLR guideline and a RoLR plan
- conducting RoLR exercises simulating RoLR events
- making RoLR cost recovery scheme determinations.

In 2013–14 we called for expressions of interest for parties to be RoLRs, and maintained internal processes to manage a RoLR event. We worked closely with AEMO, industry and other stakeholders to ensure all parties understand their potential role if a retailer fails. As part of this, we simulated a RoLR event, involving 115 participants representing energy retailers and distribution companies, energy ombudsman schemes, jurisdictional regulators, jurisdictional energy departments and energy market bodies including AEMO. We published a report on our website.

We also started assessing several applications to recover default RoLR preparatory costs in 2013–14.

Performance reporting

Each quarter we publish key market and retail performance data on a range of indicators, including data on customer switching levels, customers experiencing payment difficulties, customer hardship, disconnections and reconnections, and complaints. We moved to an online quarterly reporting format (as part of our industry statistics page on our website) in 2013–14, giving stakeholders timely access to data.

In November 2013, we published our first annual Retail Market Performance Report, including a report on energy affordability.⁴ Electricity and gas are essential services, necessary for a reasonable standard of living and social participation. Energy bills are typically paid quarterly in arrears, which can affect household budgets, particularly those on low incomes.

The Retail Law provides an important safety net and key protections for customers experiencing payment difficulties and financial hardship. But the Retail Law does not define energy affordability, nor does it prescribe how we should report on it. We based our first report on existing research and analysis on energy affordability, feedback from our Customer Consultative Group, as well as public consultation and feedback. The report establishes a framework to monitor energy prices over time, as well as the proportion of income benchmark households spend on annual bills. Specifically, our analysis considers:

- the range of electricity and gas prices generally available to residential customers in each distribution (or pricing) zone
- estimates of annual electricity and gas bills
- annual expenditure on electricity and gas bills as a share of disposable income for benchmark low, middle and high income households. For low income households, we also consider the effect of energy concessions.

By maintaining a consistent approach to our analysis, we will compare these benchmarks from year to year and observe trends over time. Feedback from stakeholders was positive and supported our approach.

⁴ An updated version of the report was published in February 2014 to reflect amended data provided by certain retailers.

3.3 WHOLESALE ENERGY MARKETS

2013–14 overview

- We published 104 weekly performance reports on electricity and gas spot markets and five high price events reports.
- We published a special report on unusual market outcomes in South Australia.
- We submitted a proposal to amend the National Electricity Rules regarding the rate at which generators can be required to alter their output.
- We developed an indicator of the impact of rebidding on the wholesale electricity market and used it in a submission to support proposed changes to the ‘good faith’ bidding rule.
- We published indicators on market concentration and competitive conditions in the NEM.
- We started monitoring the new Wallumbilla gas supply hub in Queensland.

Our role in wholesale energy markets

We have responsibilities in wholesale electricity and gas markets in all jurisdictions except Western Australia and the Northern Territory. The markets are:

- the NEM—a \$12 billion per year spot market in eastern and southern Australia, with more than 200 generators competing to deliver electricity
- spot markets for gas—market hubs in Adelaide, Sydney, Brisbane, Victoria and Wallumbilla, trading around 370 petajoules each year.

We monitor these markets to:

- ensure market participants comply with the underpinning legislation and rules
- detect irregularities and wider harm issues.

We report on these issues to strengthen market transparency and confidence. We draw on our monitoring work to support our compliance and enforcement role, to advise the COAG Energy Council, the AEMC and other bodies on wholesale market issues, and to assist the ACCC—for example, advising on mergers.

Our resources used on wholesale energy markets

Figure 3.2: Staff time for wholesale markets, 2013–14



In 2013–14 we spent around 8 per cent per cent of our staff time on wholesale market issues. These issues involved monitoring and reporting the performance of wholesale markets.

Outcomes and work completed in 2013–14

Market monitoring and reporting

In 2013–14 we monitored wholesale markets and published timely reports on:

- weekly activity in the NEM, focusing on spot prices, reasons for variations between forecast and actual prices, and electricity futures prices and volumes
- weekly activity in the Victorian gas market, gas short term trading market (STTM) hubs in Adelaide, Sydney and Brisbane, and the gas supply hub at Wallumbilla
- high price events in both gas and electricity
- significant market outcomes in the NEM.

Reports on price events

We must publish a report whenever the price for electricity exceeds \$5000 per megawatt hour, or an ancillary services price exceeds that price for an extended period. The reports identify and describe significant factors that contributed to the high price, including generator rebidding, network issues and/or changes to demand and generator availability.

We published four reports in 2013–14. The first covered events on 1 October 2013, when ancillary services prices in South Australia exceeded \$5000 per megawatt for nine consecutive five minute dispatch intervals. For some ancillary services, the prices reached the then market price cap of \$13 100 per megawatt. The high prices resulted from a combination of transmission line outages, reduced generation in south-west Victoria and the need for additional services.

The other reports covered events occurring during periods of high demand due to extreme heat:

- On 19 December 2013 the spot price reached \$10 637 and \$5640 per megawatt hour for two consecutive 30 minute trading intervals in South Australia. Rebidding by some participants was an important contributor to the high prices.
- On 20 December 2013 the spot price reached \$7696 per megawatt hour for one 30 minute trading interval in New South Wales. A number of factors contributed to this event including demand due to high temperatures, a fall in available generation capacity, rebidding by some market participants and network limitations in Victoria.
- On 15 January 2014 the spot price reached \$6213 and \$5972 per megawatt hour in South Australia and Victoria respectively. AEMO issued market notices earlier in the day indicating there was insufficient generation capacity to meet forecast demand. Interruptions to the electricity supply were avoided because Basslink provided additional capacity from the Tasmanian region.

We also publish reports on significant price variations in the Victorian wholesale gas market and the Sydney, Brisbane, and Adelaide gas STTM hubs. We published one report in 2013–14, when Market Operator Service (MOS) 'service payments' in the Adelaide STTM exceeded the reporting threshold of \$250 000 on the 25 June 2013 gas day. We concluded the large MOS requirement occurred because customers in Envestra's Elizabeth zone could not access Victorian gas via the SEAGas pipeline. We recommended Envestra investigate means to remove this constraint, which was subsequently completed in July 2014.

Report on market outcomes in South Australia

On 2 August 2013 we published a special report on market outcomes in South Australia during April and May 2013. South Australia experienced its tightest supply/demand conditions since the summer of 2009, leading to unusually high spot prices for this time of year. High prices are predominantly associated with tight supply/demand conditions or strategic behaviour by generators, conditions more commonly observed in South Australia during summer when electricity demand peaks.

We identified the following contributing factors:

- reduced available capacity from some generators
- inconsistent output levels from wind generators

- limits on transmission network interconnectors
- step changes in demand due to off-peak hot water load
- changes in generators' pricing strategies.

Market monitoring and gas market development

In 2013–14 we expanded our market monitoring activities to include the Wallumbilla gas supply hub in Queensland, which commenced operation on 20 March 2014 (see case study on page 48). We developed mechanisms to monitor market outcomes and participant activities and began reporting on outcomes in our weekly gas report.

Identifying and responding to market irregularities

During 2013–14 we worked to remove impediments to wholesale energy markets operating efficiently.

Network congestion and disorderly bidding

Transmission network congestion can cause disorderly bidding in the NEM (generators making bids and rebids without reference to underlying supply costs). This bidding behaviour causes market volatility and damages inter-regional competition and trade in electricity.

In August 2013 we submitted a proposal to the AEMC to change the electricity rules. We proposed the rate at which generators alter their output should reflect the plant's technical capability at the time, rather than the current minimum requirement of 3 megawatt per minute (or 3 per cent for generators below 100 megawatts in capacity). We expect this change would reduce the effects of disorderly bidding, because it allows AEMO to move generators more quickly during periods of network congestion. We also expect market efficiency to improve more generally—for example, by precluding generators from limiting their output rate for commercial reasons. We also proposed that dispatch inflexibility profiles reflect the generating plant's technical capabilities, as generators sometimes also use dispatch inflexibility profiles to achieve commercial objectives.

In 2013–14 we also applied a revised STPIS for transmission businesses (see *Energy networks*). One of the revised scheme's aims is to reduce network congestion.

Good faith rebidding

Provisions in the electricity rules require generators to bid in 'good faith'; that is, a generator must honour its offer to the market unless the material conditions upon which the offer was based change. Rebids not made in good faith can impair the accuracy and transparency of information.

In November 2013 the South Australian Minister for Mineral Resources and Energy submitted a proposal to the AEMC which, if implemented, would require generators to demonstrate what material circumstances had changed to justify a rebid. In addition, generators must account for all existing material circumstances when making a bid and, if there is a change to any of those circumstances, to reflect those changes in rebids as soon as practicable. The AER supported this proposal, via a submission to the AEMC and participated in stakeholder forums.

We also worked on an index of the extent of rebidding in the NEM, drawing on this analysis in our submission to the AEMC's rule change process. We will refine the index in 2014–15 and consider how it might inform our ongoing market monitoring.

Market structure

In April 2013 the AEMC found potential for substantial market power to exist or be exercised in future in the NEM. It recommended the COAG Energy Council (then SCER) consider conferring on the AER a specific monitoring function to identify early any evidence of significant barriers to entry or other industry features that may impede efficient market operation. In May 2013 the COAG Energy Council agreed to examine if the National Electricity Law needs changing before it considers its policy position.

CASE STUDY

The Wallumbilla hub

On 20 March 2014 a gas supply hub was launched at Wallumbilla, where three major pipelines connect, to help streamline trade and enhance price transparency. We monitor participants' compliance with the market conduct rules, which prohibit members from manipulating prices and acting fraudulently.

Prior to market start, we:

- consulted with AEMO on the market framework and market data
- consulted with participants to understand how they intend to use the hub, and to identify any concerns with the proposed arrangements
- outlined areas of initial monitoring focus, such as whether participants trade based on gas they intend to physically deliver or receive at the hub.

We developed tools to monitor compliance with the market conduct rules and reported on trade volumes and prices (both short term activity and longer term trends). As the market evolves, we will engage with stakeholders and monitor the market to better understand trends and to detect any areas of non-compliance.

In the meantime, we monitored the wider issue of market structure in the energy sector. In 2013–14 we published a range of structural and behavioural indicators of competition for each NEM region in our *State of the energy market 2013* report. We will continue to consider the efficacy of various metrics to help identify emerging market structure and concentration issues.

We also provided information and assistance to the ACCC as it considered energy market issues, such as the privatisation of generation assets in New South Wales.

3.4 COMPLIANCE AND ENFORCEMENT

2013–14 overview

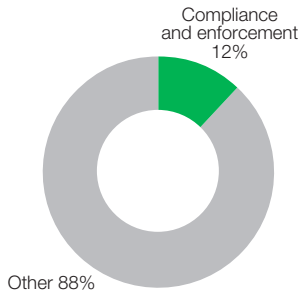
- We released a consolidated *Compliance and enforcement statement of approach* to reflect the consistent approach to compliance with the energy laws.
- We completed a major investigation into Snowy Hydro's alleged failure to follow AEMO dispatch instructions.
- We issued three infringement notices for alleged breaches of the National Electricity and Gas Rules.
- We completed two technical audits in electricity and one information audit in gas.
- We conducted two targeted provision reviews into compliance with the National Electricity Rules.
- We completed seven strategic compliance projects on wholesale energy markets.
- We published our inaugural National Energy Retail Law: Annual Compliance Report.
- We reviewed, and reported on, compliance with small customer billing requirements under the National Energy Retail Rules.
- We surveyed the performance of electricity transmission businesses in providing connection services.

Our role in compliance and enforcement

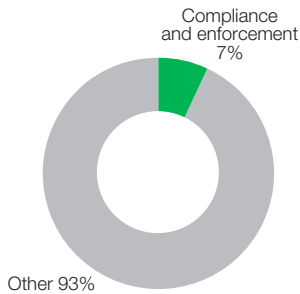
We monitor and enforce market participants' and energy service providers' compliance with the national energy legislation and rules in:

- wholesale energy markets—the NEM, the STTM for gas, the gas supply hub at Wallumbilla and the Victorian gas market. We also undertake compliance work on the national gas market bulletin board
- the supply of energy network services—electricity network services in the NEM and gas pipeline services in jurisdictions other than Western Australia
- retail energy markets—at 30 June 2014 we undertook this role in New South Australia, South Australia, the ACT and Tasmania.

Staff time for compliance and enforcement, 2013–14



Consultancy and legal expenditure for compliance and enforcement, 2013–14



Our resources used on compliance and enforcement

In 2013–14 we spent approximately 12 per cent of our staff time on compliance and enforcement issues involving the network, wholesale and retail energy market sectors. Staff across the organisation contributed to this work program.

The program accounted for just over 7 per cent of consultancy and legal expenditure. This reflects the need for external legal expertise during in-depth investigations or for clarifying points of law.

Outcomes and work completed in 2013–14

Compliance reporting

We routinely publish compliance reports summarising our enforcement and compliance activities. These reports are an important tool to encourage participants to act according to good industry practice.

We published the following compliance reports during 2013–14:

- four quarterly compliance reports providing an overview of our recent compliance and enforcement activities under the electricity and gas laws.
- an information booklet (August 2013) on generator performance standards setting out the AER’s compliance monitoring approach, which includes technical compliance audits, industry reporting of non-compliance and treatment of generators in dry-storage.
- our first annual compliance report for the National Energy Retail Law in November 2013. The report was accompanied by notes designed specifically for consumer caseworkers and others interested in identified compliance issues and our monitoring focus. We will release our second annual compliance report under the Retail Law for 2013–14 in November 2014.
- a report on our targeted review of the billing provisions in the Retail Rules (February 2014). The case study on page 53 provides further detail about our findings.

Compliance and enforcement activities

We undertook a range of compliance and enforcement activities during 2013–14. We also released a combined *Compliance and enforcement statement of approach* in April 2014 to replace two previous statements of approach—one for the

Retail Law and the other for the National Gas and Electricity Laws. We combined the two statements to reflect our consistent approach to enforcing energy laws across all markets and to recognise that many businesses participate in both retail and wholesale markets and across both the electricity and gas sectors.

Wholesale markets

Enforcement action

We can take statutory enforcement action in response to compliance breaches. Our powers include issuing infringement notices, seeking court enforceable undertakings and initiating court proceedings.

In 2013–14 we issued three infringement notices for alleged breaches of the National Electricity and Gas Rules:

- On 20 December 2013 we issued a notice on Epic Energy for submitting to AEMO incorrect data on its gas deliveries through the Moomba to Adelaide pipeline. The errors occurred on 13 days in June and July 2013. AEMO uses pipeline data to calculate prices in the STTM. Data errors may adversely affect participants and reduce confidence and participation in the market. Epic experienced an identical issue in 2012.
- On 25 February 2014 we issued a notice to Red Energy for failing to test metering equipment. If metering equipment is not appropriately tested, market participants cannot be assured that payments made and received are accurate and may lose confidence in market data.
- On 19 May 2014 we issued a notice to Lumo Energy, alleging it enabled unauthorised access to AEMO's market settlement and transfers system from February 2012 to December 2013. Lumo Energy's actions affected the security of the market systems, potentially exposing confidential information to the public.

Each notice issued had an infringement penalty of \$20 000. Further detail on these matters is set out in our investigation reports.

We also completed an investigation that led us to institute proceedings in the Federal Court of Australia in July 2014. We allege the electricity generation company Snowy Hydro failed to follow dispatch instructions issued by AEMO on nine occasions in 2012 and 2013. This matter is ongoing.

Targeted provision reviews

Targeted reviews explore compliance practices with the aim that participants better understand their obligations. In 2013–14 we conducted reviews covering two National Electricity Rules provisions:

- During the December 2013 quarter, we targeted an obligation on market participants to ensure data held in metering installations is protected from local or electronic access. We wrote to several market participants and requested they review their compliance arrangements.
- During the June 2014 quarter, we targeted an obligation requiring AEMO and market participants to comply with the market management systems access procedures. These procedures aim to protect the integrity and security of the systems. We wrote to three participants for information on their compliance with the requirements.

Audits

We continued to audit electricity generators and transmission network businesses, to ensure they meet performance standards and technical requirements. Specifically, the audits assess whether participants institute and maintain robust and effective compliance programs, consistent with good electricity practice. In 2013–14 we reviewed a wind generator for the first time, AGL Hydro Partnership's 420 megawatt Macarthur wind farm. We also audited a third transmission business, ElectraNet.

We also audited one gas participant—SEA Gas. This was the last in a series of audits assessing STTM facility operators' processes to comply with information requirements, and whether the processes are consistent with good industry practice. This audit program was in response to a large number of data errors that occurred shortly after the STTM was established.

Strategic compliance projects

Our strategic compliance projects address identified compliance issues, inefficiency, harm or risk within energy wholesale markets. We design tailored metrics for each project to assess how successfully we, and industry, rectify the identified issue.

In 2013–14 we commenced a strategic project reviewing the quality of information published by transmission network businesses in their annual planning reports. The reports promote transparent and efficient investment by indicating to third parties the current and likely future state of the network, including opportunities for non-network investment. This project is ongoing.

We also completed seven strategic compliance projects on wholesale energy markets:

- **MT PASA data accuracy**—The Medium Term Projected Assessment of System Adequacy provides electricity supply–demand prospects for the next 24 months. Accurate data is critical to AEMO’s ability to ensure security of supply and for effective risk management in financial markets. After comparing projected and actual generation availability by generation portfolio, we followed up two participants. Each business will review its MT PASA processes to ensure future compliance.
- **Performance of ancillary services for regulation**—This project assessed whether providers of frequency control ancillary services deliver the services they are paid to provide. Ancillary services maintain the power system frequency within standards to safeguard system security. The AER and AEMO will refine processes to monitor and ensure the services are appropriately delivered.
- **Upgrades to metering installations**—We examined AEMO data to ascertain whether consumers have the appropriate metering installation, and to address any widespread non-compliance. Following the review, we wrote to 20 retailers and distributors about their obligations, and will continue to engage with them on this matter.
- **Metering data quality**—We worked with AEMO to refine metering data quality metrics. The metrics will help us to effectively target future metering compliance and enforcement work.
- **Trends in power system operating incident reports**—AEMO’s power system incident reports assess the response of network businesses and market participant facilities to power system disturbances (such as an unexpected trip causing a sudden loss of generation). Our analysis led us to tailor the framework for our technical audits of generators and transmission network businesses.
- **Demand forecasting in the gas STTM**—This project was in response to ongoing poor demand forecasting by some gas STTM participants. We compared forecast demand to actual demand, and contacted those market participants with poor forecasts. Forecasts improved, but we will continue to monitor compliance and engage with participants.
- **Generators not following dispatch instructions**—This project involved monitoring instances of generators not following dispatch instructions. We contacted participants whose actual generation for a unit differed from its target measured against predetermined thresholds. We will continue to monitor compliance in this area using new monitoring techniques developed for this project.

Our quarterly compliance reports provide further information on these projects.

Retail markets

We employ various tools to monitor and enforce compliance with the Retail Law. They include an exception reporting framework under which businesses must notify us within a given timeframe if they breach provisions; a proactive monitoring program; intelligence from our regular liaison with energy ombudsmen and consumer representatives; and complaints that we receive directly. We set out our approach to monitoring and enforcing compliance in a Statement of Approach, which we reviewed in April 2014.

In 2013–14 we received twice yearly and yearly exception reports from energy retailers and distributors covering activities in four jurisdictions (New South Wales, South Australia, Tasmania and the ACT). We also received interim exception reports on wrongful disconnections and specific protections for life support customers. In June 2014 we began consulting on amendments to improve the exception reporting framework; this process will conclude in 2014–15.

Small customer billing review

Energy bills are an important part of a household budget, and contain useful information for customers about their energy use. At the same time, bills can be complex and difficult to understand. The Retail Rules include requirements retailers must meet for billing small customers.*

The AER reviewed the billing provisions in the Retail Rules, following feedback from stakeholders in 2012–13 that highlighted consumer concerns about energy retailers' billing practices. The review covered the period 1 July 2012 to 30 June 2013 for retailers in Tasmania and the ACT, and from 1 February 2013 to 30 June 2013 for retailers in South Australia.** The review focused on particular provisions in the Retail Rules, identified by stakeholders as of concern, including:

- the contents of bills
- the frequency of bills, and the management of delayed bills
- the basis for bills, including obligations to obtain meter readings
- management of over- and undercharged amounts
- circumstances in which bills can be based on estimated consumption.

Retailers mostly complied with the Retail Rules; non-compliance generally involved missing content in bills, but retailers addressed this when we raised the issue with them. More apparent were differences in practices between retailers. The Retail Rules allow retailers some discretion in how they achieve compliance; retailers use different approach to fulfil their obligations, leading to good practices and poor practices:

- Some retailers provide clearer and easier to understand information, by using headings and subheadings to separate out multiple tariffs on a bill, for example.
- Billing delays occur for reasons such as internal process errors, third party provider problems, or a lack of metering data. Providing clear, timely and accurate advice about a delay can at least help the customer plan for the bill's eventual arrival.
- Most retailers base bills on actual consumption data, taken from meter readings, but estimates can be used when the actual metering data isn't available. Retailers may use a meter reader's estimate or their own estimate. Using estimates ensures customers continue receiving bills, and some retailers explained to customers why they used an estimate.
- Under- or overcharging can occur for many reasons, but some retailers better explained the reason to customers and informed them of their rights. A good practice example was calling the customer to inform them of the over- or undercharge and explaining their rights.

* Set out in Part 2, Division 4 of the National Energy Retail Rules.

** These dates corresponded with the Retail Law commencing in those jurisdictions.

We reviewed businesses' websites after the Retail Law commenced in New South Wales on 1 July, to ensure all required information was accurate and available. We reviewed energy prices factsheets, retail contracts, connection offers, hardship policies and information on complaints and dispute resolution, and we worked with businesses to address any areas of delayed compliance.

We engaged with jurisdictional ombudsmen schemes and our Customer Consultative Group (CCG) to keep track of emerging or potentially systemic issues that may suggest non-compliance. When asked, we also assisted ombudsmen schemes and CCG members to identify areas of the Retail Law and Rules that may be relevant to their work.

Ongoing consumer complaints about billing practices prompted our small customer billing review, completed in February 2014. Further information about the review outcomes is set out in the case study below. Our customer hardship review, which targets concerns about how retailers implement their customer hardship policies, commenced in 2013 and will continue in 2014–15.

Most compliance issues identified in 2013–14 were resolved administratively within the year (that is, by working with the businesses to remedy concerns). Others remain under investigation. We did not take any statutory enforcement action in 2013–14.

Energy networks

As well as our general compliance work with energy network businesses, we undertook the following activities:

- **Electricity transmission connections**— We surveyed parties seeking to connect to the NEM transmission network, following concerns raised by applicants about connection processes. The responses did not indicate widespread issues about the transmission businesses' performance in providing connection services. The process allowed market participants to raise compliance issues and allowed us to remind participants of their obligations.
- **Regulatory investment test compliance**—In 2013–14 we reviewed investment projects to assess whether the relevant network business conducted the RIT-T or regulatory test as required. Some reviews highlighted compliant assessments, however others identified issues that were raised with the relevant network business. Some compliance reviews are ongoing.
- **Ring fencing compliance**—We assessed ring fencing compliance reports submitted by 23 nominated gas service providers for eight transmission and 11 distribution pipelines for 2012–13 (some pipelines have more than one nominated service provider). We assessed each report against the relevant obligations. While none of the reports raised major compliance issues, two reports raised minor issues, which were satisfactorily resolved.

3.5 PUBLICATIONS AND SUBMISSIONS

2013–14 overview

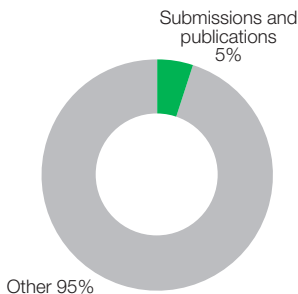
- In addition to publications related to our work areas, we publish reports to inform stakeholders about broader market issues and developments. These included the annual *State of the energy market 2013* report (released December 2013), which summarises energy market outcomes for the calendar year.
- We made submissions to 17 energy policy processes where our expertise in network regulation, energy consumer issues and energy markets could bring a valuable perspective.
- We added over 2600 decision documents, other publications and submissions to the website in 2013–14.

Our publications and submissions

We publish a range of information about the Australian energy sector, including our flagship publication—the annual *State of the energy market* report. We also aim to contribute to energy policy matters, particularly where we have built expertise. We make submissions to energy policy reviews and provide information to the bodies conducting those reviews, particularly the AEMC.

Our resources used on publications and submissions

Figure 3.3: Staff time for publications and submissions, 2013–14



In 2013–14 we spent 5 per cent of our staff time on work related to submissions and publications. These resources included staff who worked on our website, submissions, media and speeches.

Outcomes and work completed in 2013–14

Annual report

In September 2013 we published the inaugural standalone annual report for the AER. The report set out our activities in regulating the wholesale electricity market, setting prices for using energy networks and protecting customers in the retail electricity and gas markets.

State of the energy market report

We annually publish *State of the energy market* as an accessible report on activity in Australia's energy industry. The report targets a wide audience, including market participants, policy makers and the wider community. The 2013 edition (published in December) consisted of a market overview and more detailed analysis of activity and performance in each segment of the electricity and gas supply chain. The report draws on information from a range of sources, including our internal monitoring and intelligence, regulatory reviews of energy networks, and external resources. It uses non-technical language to consolidate this material, highlighting trends and key issues across the electricity and gas industries. We publish the report on our website each year, and hard copies are also available.

Submissions

We regularly contribute to policy reviews and rule change proposals when we believe our expertise in network regulation, energy markets and consumer issues can add value. In 2013–14 we made submissions to 17 different rule change proposals and policy reviews (appendix 1).

Key submissions included those to the Department of Industry's Energy White Paper Issues Paper and COAG Energy Council's review of the enforcement regimes under the national energy laws. We also actively engaged in rule change processes arising from the AEMC's Power of Choice review.

Speeches

In 2013–14 the Chair and senior staff gave numerous speeches and presented at many forums and conferences. We published four key speeches by Andrew Reeves on our website:

- 'Perspectives on energy', Speech at the South Australian Council of Social Service's Hardship and Affordability Conference, 10 July 2013.
- 'Better regulation—Better Outcomes: The AER's development of regulatory guidelines', Speech for the Energy Networks Association's Regulation Seminar, 24 July 2013.
- 'Building Consumer Confidence in the Energy Retail Market', Speech at the National Consumer Roundtable on Energy, 24 July 2013.
- 'Integrating the consumer voice into network regulation', Speech at the Annual Energy Users Association of Australia's Conference, 16 October 2013.

A full list of speeches is contained in appendix 2.

Our website

We continually updated our website (www.aer.gov.au) throughout 2013–14 with our decision documents, guidelines, other public reports and submissions from third parties. We published over 2600 documents during the year. We also continued to increase the website's accessibility—for example, by publishing documents in multiple formats. The website includes long term data sets on the performance of the wholesale and retail energy sectors. The data is updated regularly and is a useful resource for market participants and the wider community. In May 2014 we launched an online registration form for registrable network and retail exemptions to simplify the process for applicants.

Media releases and communications

In 2013–14 we released 145 communications (which our website subscribers receive via email) and 33 media releases (see appendix 2).

PART 4
STAKEHOLDER SURVEY

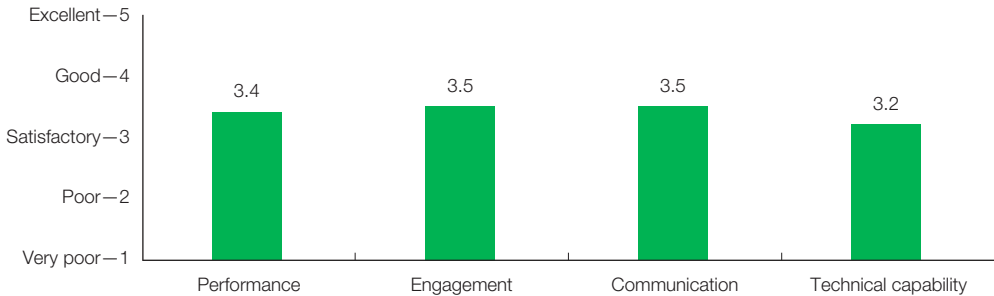


Stakeholder surveys are a useful tool to seek feedback on our performance. They assist us in identifying what we do well and areas we can improve. The ratings empirically measure how we met some key performance indicators. Surveying a broad range of stakeholders and publishing the results promotes transparency and good governance.

INTRODUCTION

The 2014 survey results and commentary overall tell a positive story about the AER's performance (figure 4.1), indicating stakeholders have confidence in us and our ability to make good decisions—within the boundaries of the regulatory regime. We were rated satisfactory to good against most performance indicators. Further, we received strong positive feedback about our recent initiatives to improve both the way we engage with stakeholders, and how we communicate our processes and decisions.

Figure 4.1: AER's overall performance, 2014



The previous stakeholder survey in 2011 indicated a decline in our performance compared with the 2008 survey. There was also public commentary at the time raising concerns about our performance.

We took the downward trend in the 2011 results and criticism seriously; it helped us understand stakeholders' expectations of our performance. We identified the following themes:

- There was a perception that stakeholders had reduced confidence in us.
- Some questioned the robustness of our technical analysis, especially given the Australian Competition Tribunal overturned a number of our decisions.
- There were concerns about whether we engage constructively with industry and effectively communicate our decisions.
- Some considered we did not have a good understanding of the key issues facing the industry and, due to resource constraints, we lacked the technical capability to fulfil our role.

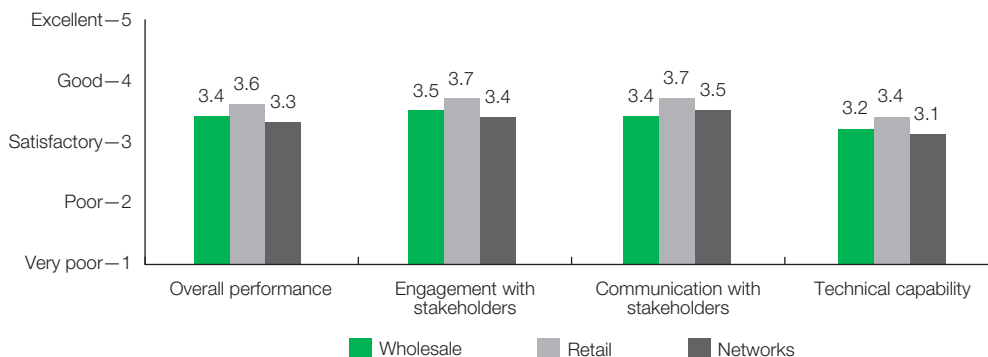
The 2014 stakeholder survey is more comprehensive than previous surveys in 2008 and 2011 (the results of which are available on our website).⁵ To better understand the above concerns, we added many new performance indicators and clarified the meaning of some existing indicators. We maintained a consistent approach where practicable to allow for performance comparisons over time.

Also, our independent consultant conducted targeted stakeholder interviews for the first time in 2014. We invited stakeholders with a broad perspective of our work and the energy sector more generally, such as industry organisations, to participate in the interviews. We also selected representatives of some businesses we regulate.

The 2014 survey results overall were reasonably consistent across the retail, wholesale and networks areas of the AER (figure 4.2). That said, the results indicated areas where we can improve our performance. In particular, survey participants rated our performance as marginally satisfactory for some indicators, and the commentary highlighted areas we can improve.

⁵ See at www.aer.gov.au/publications/corporate-documents

Figure 4.2: AER's overall performance by area, 2014



We are committed to continually improving our performance over time. We undertake to learn from the stakeholder feedback by identifying and addressing weaknesses and by building on our successes.

SURVEY METHODOLOGY

Buchan Consulting, an independent consultant, conducted our 2014 stakeholder survey and interviews on our behalf.

Changes to the survey

Regular surveys allow us to benchmark our performance over time. While the 2008 and 2011 surveys used the same indicators, the 2014 survey introduced additional performance criteria to help identify any specific concerns. We also clarified the meaning of a number of the existing indicators to encourage objective responses (see appendix 5) and we deleted some previous indicators.

There were also some changes to the survey methodology that affect comparisons between the 2008, 2011 and 2014 results:

- The rating scale was changed from '1 to 4' to '1 to 5' for the 2014 survey.⁶ Our expert consultant considered a '1 to 5' rating scale gave respondents a wider, more balanced range to evaluate the AER.⁷
- Where we received multiple responses from the same area of an organisation (i.e., retail, wholesale or networks), the average rating of those respondents was recorded. This gave ratings from each organisation that we surveyed equal weighting so that some organisations are not 'overrepresented', which could skew the results to some extent.
- Consultants' survey ratings were excluded from the overall results and are reported separately (see *Consultant views* below), given the unique nature of our relationship with them compared with other stakeholders.

To allow comparisons between the 2011 and 2014 survey results, the 2011 data was rescaled, 'organisation responses' weighted and consultant responses excluded—consistent with the 2014 survey methodology.⁸

6 In the 2008 and 2011 surveys, respondents could rate the AER 'poor' (1), 'satisfactory' (2), 'good' (3) or 'excellent' (4). The options in 2014 were 'very poor' (1), 'poor' (2), 'satisfactory' (3), 'good' (4) and 'excellent' (5).

7 Additionally, for the 2014 survey, respondents could select 'N/A' if a survey question did not apply to them or if they do not wish to answer the question.

8 To rescale the results, 2011 ratings of '1' (poor) were converted to ratings of '1' (very poor) and '2' (poor) by applying roughly the same percentage ratio of the 'very poor' (30 per cent) and 'poor' (70 per cent) ratings observed for the 2014 responses. 2011 survey responses of 'satisfactory', 'good' and 'excellent' were directly comparable with 2014 responses. Buchan Consulting advised these were reasonable assumptions. Unfortunately, the detail of the 2008 survey results was unavailable, so the 2014 survey methodology could not be retrospectively applied to the 2008 results.

Survey distribution

We invited 290 senior people from a broad range of organisations to participate in the 2014 stakeholder survey including: network businesses, retailers, generators, ombudsman schemes, state regulators, industry and consumer representatives and associations, consultants, government departments and energy Ministers. Stakeholders were asked to complete an online survey.

Sixty per cent of recipients responded to the survey. We are confident a sample size of 173 means the survey results represented a broad range of our stakeholders.

Buchan Consulting also conducted 15 one-on-one qualitative interviews—mostly by phone. The interview questions followed a similar format to the online surveys and covered the same key themes. The AER chose interviewees from a cross section of key stakeholder groups: market institutions, government officials, consumer groups, industry associations and energy businesses.

Survey design

The survey gathered quantitative and qualitative stakeholder feedback on our performance. Participants were asked to identify and provide feedback on the area of our work program most relevant to their role in their organisation in the following categories:

- (1) Monitoring compliance and enforcement in energy wholesale markets under National Electricity and Gas Laws (Wholesale Markets)
- (2) Monitoring retail energy markets and regulating energy retail and distribution businesses under the National Energy Retail Law (Retail Markets)
- (3) Gas and electricity network economic regulation and monitoring enforcement and compliance of network businesses under the National Electricity and Gas Laws (Networks).

Survey structure

The first set of questions in the survey was about the AER's overall performance. They go to the key capabilities of a good regulatory agency, such as impartiality, transparency and timeliness of decisions.

The survey then sought more specific feedback on three areas of performance, namely engagement, communication and technical capability.

The discussion below follows the survey's format. That is, first we highlighted our performance results for the higher-level indicators, followed by a more detailed examination of the ratings for the engagement, communications and technical capability performance indicators.

PERFORMANCE

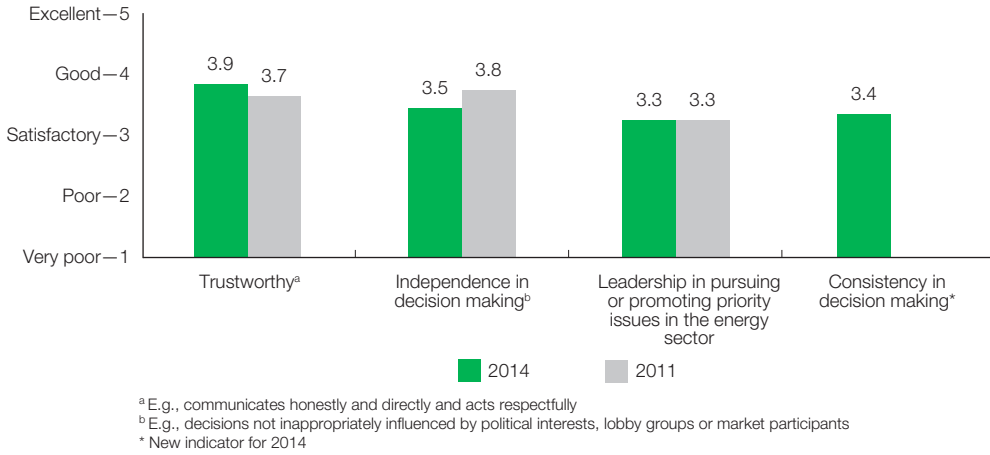
As the national energy regulator, we must make timely, evidence based, independent decisions. We must also manage risks appropriately, act with integrity and engage effectively with stakeholders. Such criteria reflect our overall performance as a regulator.

Stakeholders have confidence in the AER

The survey indicators relating to trust, independence, leadership and consistency reflect stakeholders' confidence in the AER. Trust is fostered by communicating honestly and directly and acting respectfully, for example. Independence relates to decisions being made on their merits, in accordance with the regulatory framework and not being inappropriately influenced by political interests, lobby groups or particular market participants.

We performed well against the 'stakeholder confidence' indicators (figure 4.3). Survey ratings for 'trust' were among the highest across all survey indicators.

Figure 4.3: AER's performance against stakeholder confidence criteria, 2011–2014

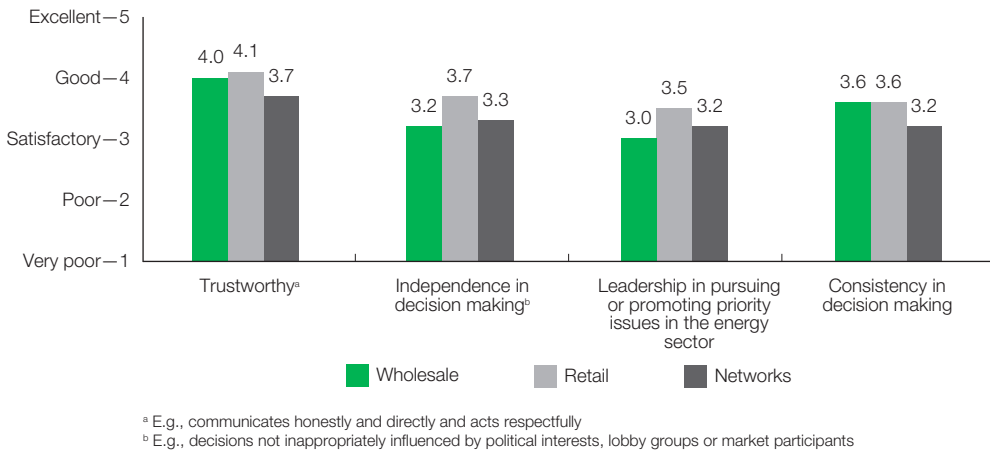


We expect these results reflect our recent initiatives to increase our transparency and ensure stakeholders have an opportunity to contribute to our processes:

- producing our standalone AER annual report, which provides detailed information about our resourcing and comments on our performance against key performance indicators and deliverables
- explaining regulatory processes and decisions at stakeholder workshops and roundtable discussions
- introducing consumer-friendly documents and factsheets to accompany decisions (see *Communication*).

Ratings for retail and networks were consistently satisfactory to good across the 'stakeholder confidence' indicators (figure 4.4).

Figure 4.4: AER's performance against stakeholder confidence criteria by area, 2014



Wholesale's results varied, receiving scores of satisfactory to good for 'trust' and 'consistent decision making' but marginally satisfactory scores for 'leadership in pursuing or promoting priority issues in the sector' and 'independence in decision making'. We will consult with our stakeholders to identify and understand underlying concerns about our performance in this area and explore ways to address any perceived weaknesses.

We make decisions in the long term interests of consumers

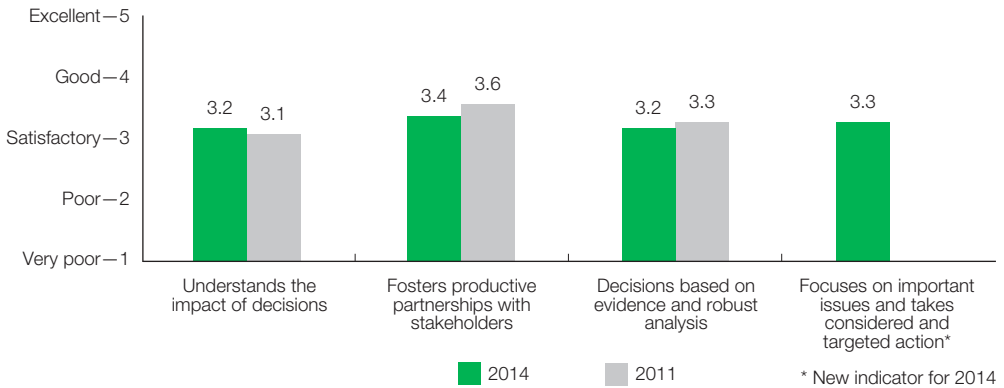
Our decision making is guided by the national energy objectives to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to:

- price, quality, safety, reliability and security of supply of energy
- the reliability, safety and security of the national energy systems.

Robust analysis and understanding of the key issues facing the industry helps us make decisions consistent with the long term interests of consumers. Productive partnerships with stakeholders are also an integral part of this and help us to identify the important issues affecting the energy sector.

We received satisfactory results for the ‘decision making’ indicators (figure 4.5).

Figure 4.5: AER’s performance against decision making criteria, 2011–2014



Our retail and wholesale work areas consistently received satisfactory ratings across the ‘decision making’ indicators (figure 4.6).

Figure 4.6: AER’s performance against decision making criteria by area, 2014



Networks was rated marginally satisfactory for ‘understands the impacts of decisions’, ‘fosters productive partnerships with stakeholders’, and ‘decisions based on evidence and robust analysis’. These results may be partly related to stakeholder concerns about our technical capability, which is discussed in more detail below (*Technical capability*).

They may also reflect specific concerns about information requirements we impose on the network businesses to assess their regulatory proposals. We request information, for example, to understand how the businesses operate, and to enable us to compare their performance against each other and over time. Several survey participants commented the requirements are excessive and do not reflect an understanding of the resourcing required to meet such obligations.

We consulted extensively about these information requirements, so we only request information that is reasonably required for us to perform our functions under the law. However, we recognise that given the large volume of information requested, more can be done to minimise the compliance costs on the network businesses over time. We commit to periodically reviewing the requirements in close consultation with the businesses.

We are held accountable

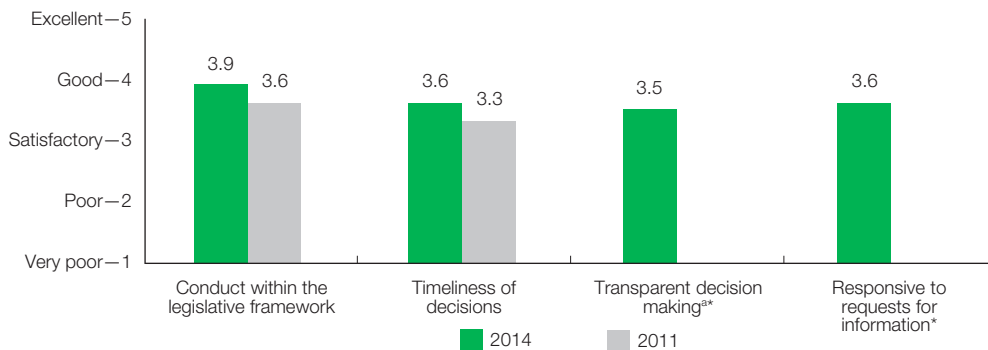
We are accountable for our decisions and, ultimately, our performance as a regulator. We must act impartially, with appropriate regard for proper process and within the limits of our authority. We have a duty to explain our decisions and we are exposed to external scrutiny via the Australian Competition Tribunal. We are also subject to the performance and statutory requirements common to all Commonwealth agencies, as well as the COAG Energy Council’s new accountability and performance framework (discussed in part 1).⁹

We performed well against the ‘accountability’ indicators (figure 4.7). Survey ratings for ‘conduct within the legislative framework’ were among the highest across all survey indicators.

One interviewee stated:

Success is being actively engaged with all participants and that their decisions are timely and following the intent of the legislations. At different times, the legislation has different meaning/intent. So regulating is not a set and forget. The AER is really successful in fulfilling that set of criteria; they are active participants in the conversations. They are a player, and the way they engage and ‘play’ sets the way everyone else is involved.

Figure 4.7: AER’s performance against accountability criteria, 2011–2014

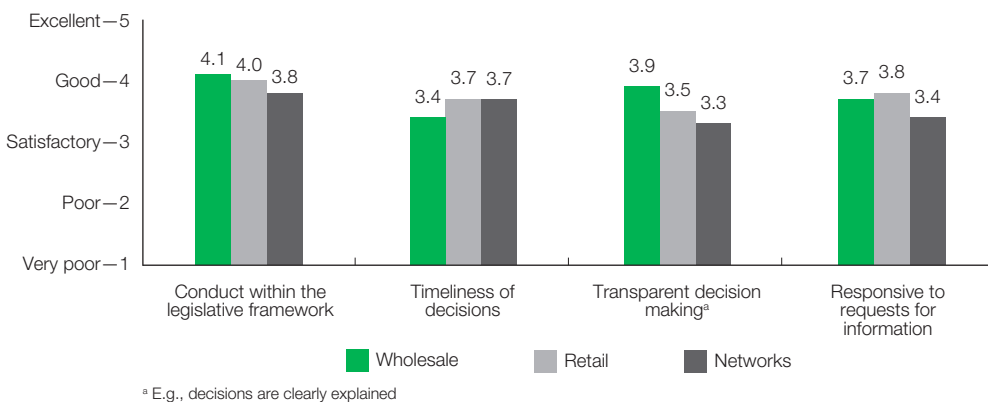


^a E.g., decisions are clearly explained
^{*} New indicator for 2014

Ratings for our retail, wholesale and networks work areas were consistently satisfactory to good across the ‘accountability’ indicators (figure 4.8).

⁹ Moreover, we report against key performance indicators in this annual report, including indicators relating to transparency and timeliness of decisions, responsiveness to information requests, and avoiding successful challenges and appeals of our decisions (see part 5).

Figure 4.8: AER's performance against accountability criteria by area, 2014

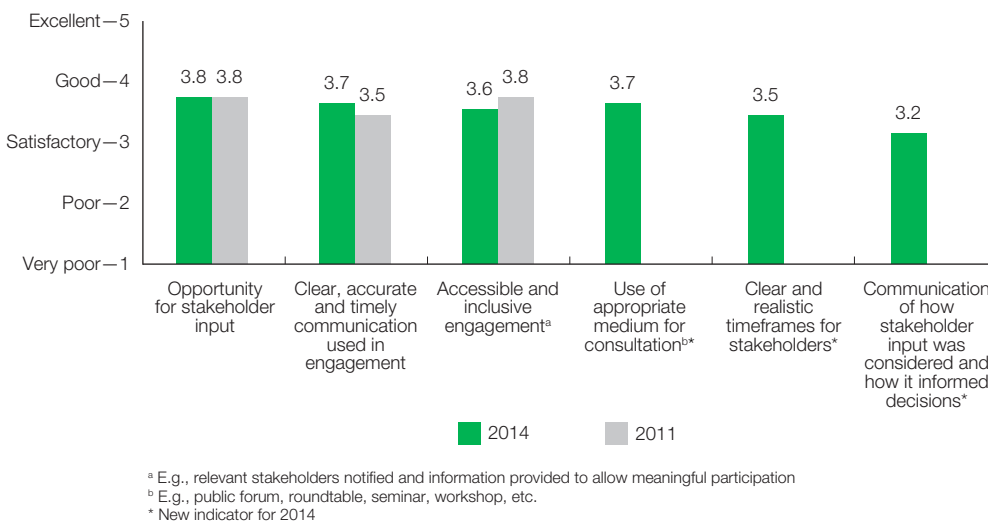


ENGAGEMENT

The AER has a broad range of stakeholders. It is imperative we meaningfully engage with our stakeholders to remain up to date on market issues and to ensure we account for their views in our decisions. We also need to explain simply how energy market regulation works and to justify our decisions. Regulatory certainty promotes efficient investment and consumer confidence in energy markets. Uncertainty about how regulation is applied can increase the cost of providing energy services by increasing investment risk.

In the 2014 survey we introduced new indicators to get more specific feedback about our engagement practices. We performed well against the 'engagement' indicators, particularly 'opportunity for stakeholder input' (figure 4.9).

Figure 4.9: AER's performance against engagement criteria, 2011–2014



We expect these results reflected our recent initiatives to improve engagement with consumers and the regulated businesses—both in terms of quantity and quality. Our engagement strategy for the Better Regulation guidelines, for example, included public forums and meetings, a submission process and a dedicated forum for consumer representatives—the Consumer Reference Group (CRG). We held over 50 workshops for consumers and the network businesses. There were also a large number of bilateral discussions with investors, network businesses and certain consumer groups.

The engagement was constructive and informed the Better Regulation guidelines. We worked closely with the CRG to inform them of our position and sought feedback from members throughout the development process. We explained the key issues and reasons why each guideline adopted certain approaches, for example. We clearly set out what problem we were trying to solve, and the options we were considering or intending to adopt. CRG members were able to distil key issues and information to constituents for consideration, consult and report back to us.

Another recent initiative is the AER Stakeholder Engagement Framework and, separately, the AER Service Charter. These documents clearly set out what our stakeholders can expect when they contact us or engage with us. The framework commits us to communicate in a timely and clear way, and to be accessible and inclusive, transparent and measurable in our engagement activities. As part of our service charter, we encourage consumers and businesses to share information with us about energy market issues or problems with energy businesses.

Interviewees and survey respondents commented on our improved engagement strategy; for example, one respondent noted:

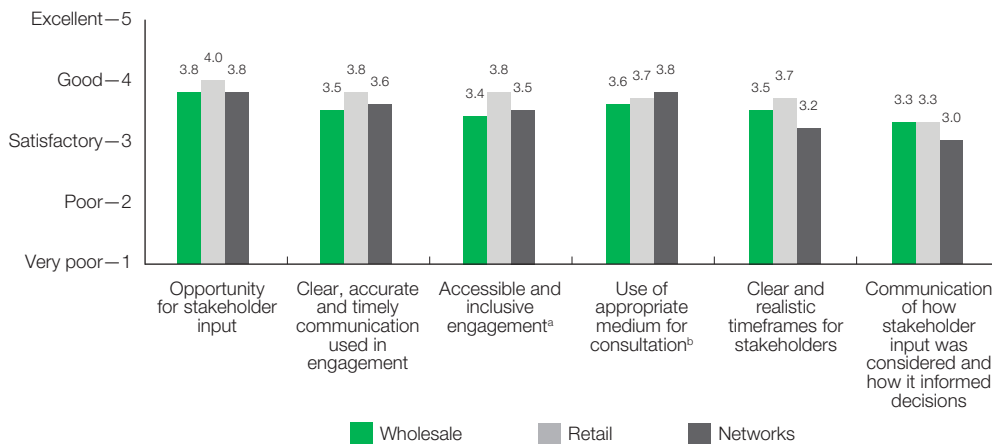
There has been substantial improvement in the formal mechanism and framework to involve consumers in the process, through things like the Consumer Challenge Panel and Better Regulation, which is a positive step.

That said, a number of stakeholders noted we must be mindful that consumer representatives often have limited time and resources:

Full marks to the Regulator for the right direction and intent. However, don't bury us with unnecessary information as our resources are too stretched for meaningful engagement

Ratings for retail and wholesale were satisfactory across the engagement indicators (figure 4.10).

Figure 4.10: AER's performance against engagement criteria by area, 2014



^a E.g., relevant stakeholders notified and information provided to allow meaningful participation

^b E.g., public forum, roundtable, seminar, workshop, etc.

Although networks scored well against most of these criteria, it was rated only marginally satisfactory for 'communication of how stakeholder input was considered and how it informed decisions' and 'clear and realistic timeframes for stakeholders'. The related commentary was mixed. One survey respondent stated:

There could be more transparency in reasons for decisions, and how stakeholder comments have been considered in forming decisions.

By contrast, another interviewee stated:

[The AER's] engagement has improved. They have improved access, if needed we get access to staff; get a better understanding of their decisions and key issues.

We understand some businesses voiced their frustration that our information requests can lack context, which in their view led to the AER misunderstanding the businesses' responses. Feedback indicated businesses prefer less formal discussions to clarify the regulatory proposals.

Stakeholders must be confident their input will be valued, understood and accounted for in the decision making process. We endeavour to have an open and consultative relationship with our stakeholders. We want to avoid an approach based solely on documentation exchange. Instead, we prefer to focus more on inquiry, questioning and understanding, although less formal approaches are not always practicable or appropriate. We report against a number of key performance indicators relating to effective engagement (see section 5).

COMMUNICATION

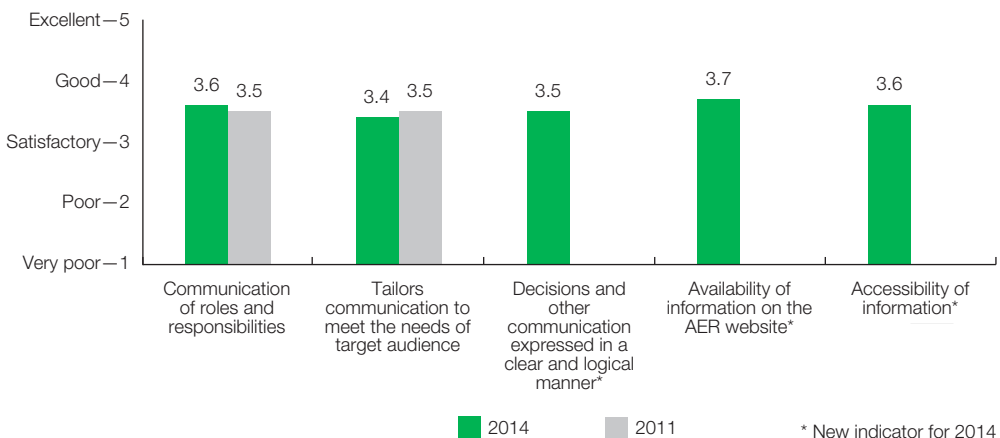
The energy industry is complex and our decisions are often highly technical. Therefore, we must explain our roles and responsibilities clearly and concisely. Our communications—including our decision documentation and media releases—must be easily accessible to our stakeholders, such as industry and consumers.

In the 2014 survey we introduced new indicators to get more specific feedback about our communications. We performed well against the communication indicators, particularly 'availability of information on the AER website' (figure 4.11). Some stakeholders commented positively on our communications:

Generally a positive improvement in external communication, the different material it produces and transparency of its decision making. It has also clearly been an area of focus for the organisation which is credit to the leadership of the AER.

Their reports are well written, well prepared, well structured, well targeted and offer a positive contribution.

Figure 4.11: AER's performance against communication criteria, 2011–2014



We expect the strong positive results and commentary reflected our recent initiatives to improve publications, to make them accessible to a broader range of stakeholders. We used clear, plain English and keep our documents as concise as possible. We also developed factsheets to accompany each draft and final decision document. They provide a simple, high-level explanation of our decisions and highlight points of interest.

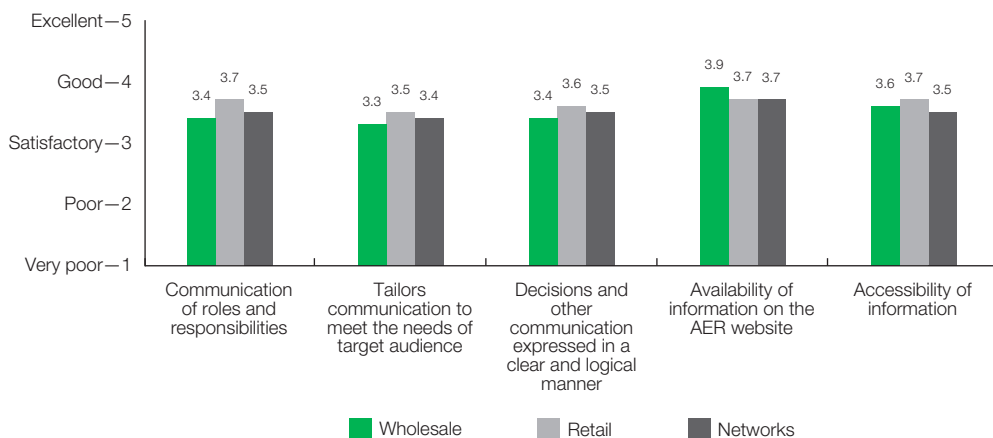
A key focus has been educating stakeholders about our role and their rights and responsibilities under the various pieces of legislation under which we operate. Since the 2011 survey, we gained new responsibilities under the National Energy Retail Law. In the lead up to, and following the Retail Law's commencement, we consulted extensively with stakeholders to develop the Retail Guidelines. In 2012 we launched the Energy Made Easy price comparator website. Energy Made Easy provides accessible information for residential and small business consumers on the energy market, consumer protections and available energy offers.

We also made it easier for stakeholders to contribute to our often complex processes. While developing the Better Regulation guidelines, for example, we held training sessions for consumer representatives on how a network determination process works. Further, we met with the CRG to explain our position, to ensure stakeholders focused on the most important issues, and to make it easier for them to provide feedback. We also developed a monthly newsletter which we published on our website. The newsletter updated stakeholders on our progress and highlighted upcoming events that may interest them.

Our wholesale markets team engaged regularly with both gas and electricity market participants, often at a detailed technical level, to appreciate the pressure points facing market players and so industry can better understand the matters concerning the AER.

Ratings for our retail, wholesale and networks work areas were consistently satisfactory to good across the 'accountability' indicators (figure 4.12).

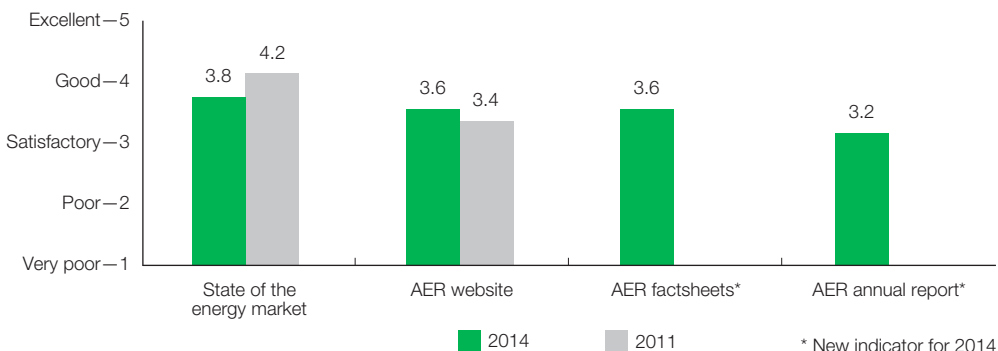
Figure 4.12: AER's performance against communication criteria by area, 2014



The survey also sought specific feedback on our more significant publications—such as the *State of the energy market* report. Overall, stakeholders found our publications useful (figure 4.13). The *State of the energy market* report received positive feedback from readers, with several respondents describing it as a valuable reference. Our factsheets also received strong positive feedback:

The factsheets about the network [decisions] are presented in a really clear format. They clearly explain how [the AER] has arrived at their decision(s) and the impact for customers, so I do think that has been an improvement and I have attended a few of the AER customer council meetings and when they are putting together reports, etc. such as the affordability section that they did recently in their report. They really consulted with that group to make sure that that page captured the consumer concerns around the affordability into their analysis, and what they were actually presenting and communicating in that document.

Figure 4.13: Usefulness of AER communication tools, 2011–2014



Feedback on our website was mixed. Some stakeholders responded positively to major changes we made to in 2012, while others found it somewhat difficult to navigate. We are committed to ensuring the AER website provides our stakeholders with timely access to information on energy market activity. We will continue trying to make it more accessible and easier for stakeholders to find relevant information. We are also working on enhancements to the Energy Made Easy website. These improvements will enhance accessibility and provide new tools that will assist residential and small business energy consumers, and make it easier for them to compare energy offers.

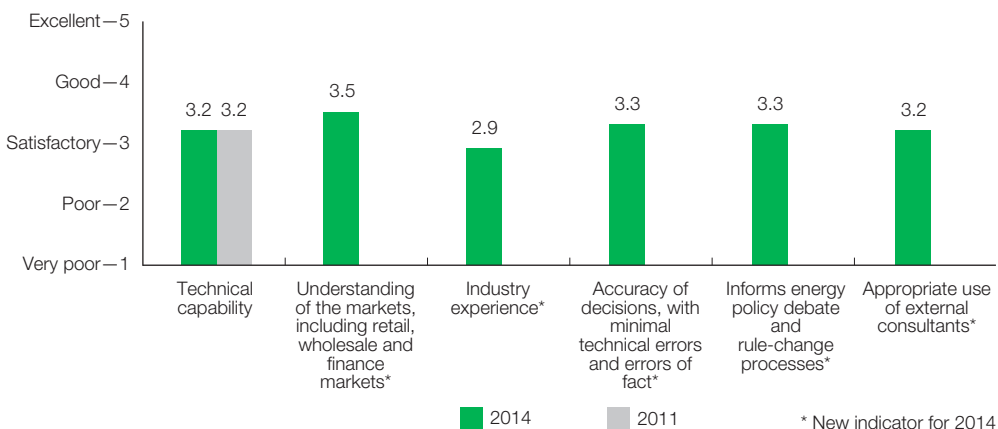
TECHNICAL CAPABILITY

Regulating energy markets and networks is inherently complex; network price reviews, for example, deal with technical issues on rates of return on investment. Some stakeholders are unfamiliar with economic terms and do not understand the ‘building block approach’ we use to determine how much revenue a business requires to cover its ‘efficient costs’.

Some stakeholders have publicly voiced their concerns about the AER’s technical capability and our ability to fulfil our functions efficiently and effectively, especially in network regulation. The 2014 survey introduced new indicators to get more specific feedback about our technical capability.

Overall, we received satisfactory results for the technical capability performance indicators, although industry experience was rated poor (figure 4.14).

Figure 4.14: AER’s performance against technical capability indicator, 2011–2014



Ratings for our retail work area were consistently satisfactory across the technical capability indicators, although retail was rated as marginally satisfactory for ‘industry experience’ (figure 4.15). This may reflect that the retail branch of the AER is relatively new given the National Energy Retail Law was introduced in Tasmania and the ACT in 2012, and in South Australia and New South Wales in 2013. Our role will continue to evolve as the Retail Law is adopted by the other jurisdictions.

The survey results for wholesale were marginally satisfactory for ‘industry experience’ and ‘informs energy policy debate and rule-change processes’, and the overall indicator for technical capability. These results may reflect, for example, that we have been more targeted in attending workshops on wholesale market issues. We will consult with our stakeholders to identify and understand underlying concerns about our performance in this area and explore ways to address any perceived weaknesses.

Figure 4.15: AER’s performance against technical capability criteria by area, 2014



Networks scored poorly for ‘industry experience’, and was rated marginally satisfactory for ‘accuracy of decisions’, ‘use of consultants’ and the overall indicator for technical capability. These views are reflected in interviewee responses:

‘[It is] absolutely critical that the AER can engage with regulated businesses on the more technical, engineering aspects of their proposals. This is one of the areas that we have been most concerned with in the past two years.’

In the past year we significantly improved our in-house technical capability and our information and analytical tools, such as our economic benchmarking capability, which may not be reflected in the 2014 survey results. We appointed four engineering technical advisors to bolster our industry expertise—particularly in electricity networks. They add to the extensive energy and regulatory expertise and experience of the AER Board and staff. AER staff have a broad range of energy and regulatory expertise and experience (in section 6). Some staff joined us from other energy regulators, both state utility regulators and international energy regulators. Others came from consulting firms and the energy sector.

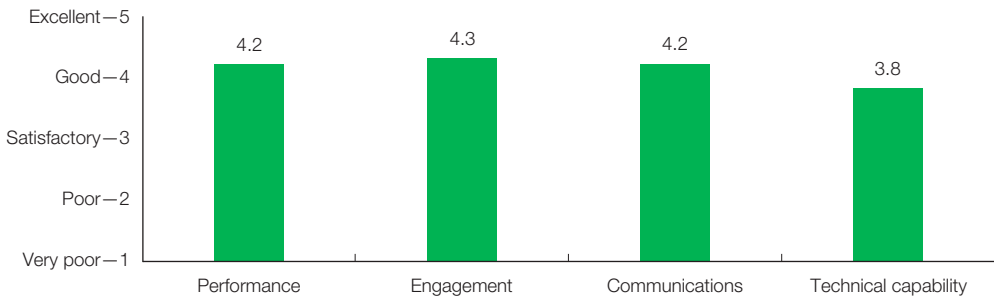
We expect such initiatives will improve stakeholder perceptions of our technical capability over time. For the round of network pricing determinations that started in 2014, the new Technical Advisor Group will be involved the regulatory process, by meeting with the network businesses, and providing specialist industry advice to AER staff and Board members. Moreover, they will develop our expertise through a program of internal capability building, including training staff and advising on improved processes and analytical methodologies. Further, enhancing our internal technical capability means we can seek more targeted assistance from external consultants.

CONSULTANT VIEWS

We rely on external advisors, such as legal counsel and expert technical consultants, who examine the more technical aspects of network pricing proposals. It is also true for our stakeholders, especially the businesses we regulate. Our reliance on technical experts is reflected in expenditure on consultants (see part 7).

Consultants consistently rated our performance across all indicators as above satisfactory to good (figure 4.16)

Figure 4.16: AER's overall performance—Consultants' views, 2014



SUMMARY OF SURVEY FINDINGS

The results of the stakeholder survey and interviews are important to us. They assist us evaluate our performance, to help maintain and drive improvements in the way we operate.

The 2014 survey results and commentary tell an overall positive story about the AER's performance, indicating stakeholders have confidence in us and our ability to make good decisions—within the boundaries of the regulatory regime. We were rated satisfactory to good against most performance indicators. Further, we received strong positive feedback about our recent initiatives to improve the way we engage with stakeholders, and communicate our processes and decisions.

That said, the results highlight areas where we can improve our performance. In particular, survey participants rated our performance as marginally satisfactory for some indicators, and the commentary highlights areas where we can make improvements.

We endeavour to continually improve our performance over time. We undertake to learn from the stakeholder feedback by identifying and addressing weaknesses in our performance, and by building on our successes.

PART 5
PERFORMANCE INDICATORS



The nature of our work makes it difficult to measure our success easily. But we established indicators that cover the breadth of our work. Some are objectively quantifiable, while others are quite subjective. Similarly, some indicators are specific deliverables with no measure of quality (for example, whether we deliver a report), while others rely on perceptions of the AER (which we measure through surveys).

AER PERFORMANCE INDICATORS AND ACHIEVEMENTS, 2013–14

The following tables list our target deliverables and performance indicators for 2013–14. For each indicator, we include a ‘traffic light report’—a green light indicates we achieved the performance target, and light green and dark grey lights indicate we did not. When we did not meet a performance target, we explain why. And, in some instances, we outline measures to improve our performance.

Formal reporting against the Treasury portfolio budget statements (PBS) and reporting required under s. 44AAJ of the Competition and Consumer Act is contained in the combined ACCC/AER 2013–14 annual report. While that report covers the performance of the AER, this chapter and the preceding chapter provide a more detailed account. Appendix 4 outlines our PBS deliverables and key performance indicators.

Strategic priorities

Better Regulation program		
<i>Publish six Better Regulation guidelines by 30 November 2013 that clearly indicate our regulatory approach</i>	Achieved. We published five of our six Better Regulation guidelines before 30 November. The exception was the rate of return guideline. This is an important guideline, so we delayed publishing the draft and final documents, to obtain additional feedback from stakeholders on our initial consultation paper and then the draft. We published the final guideline on 17 December 2013.	
<i>In developing Better Regulation guidelines, prepare consultation documents that clearly set out how we considered stakeholder views (see also priority 2)</i>	Achieved. We published explanatory statements with all of our draft and final guidelines. These documents outlined our response to issues raised by stakeholders during the consultation process.	
<i>Commence work on developing incentive schemes under the Better Regulation guidelines, to be in place for application in the first round of regulatory reviews under the new rules</i>	Achieved. We set out our Better Regulation incentive schemes in our final guidelines, and they were applied during the first regulatory reviews under the new rules. The capital expenditure incentive guideline was published as part of the Better Regulation program. We also reviewed and updated our existing Efficiency Benefit Sharing schemes for electricity network businesses.	

<p><i>Embody Better Regulation principles in framework and approach papers published in 2013–14 (for electricity transmission networks in New South Wales and Tasmania, and electricity distribution networks in New South Wales, Queensland, South Australia and the ACT)</i></p>	<p>Achieved. Framework and approach papers published in 2013–14 stated we would apply all our Better Regulation guidelines as soon as allowable.</p>	
<p><i>Engage with regulated businesses to support their timely compliance with Better Regulation guidelines and incentive schemes</i></p>	<p>Achieved. We consulted with regulated business on how to apply our Better Regulation guidelines. We prioritised engaging with network businesses with upcoming revenue determinations and those affected by transitional arrangements.</p>	
<p><i>Constructively engage in policy reviews and rule changes arising from the AEMC's Power of Choice review, and then develop or amend our guidelines as necessary</i></p>	<p>Achieved. We are participating in several current rule change consultations. These are ongoing, so we have not started reviewing relevant guidelines.</p>	
<p><i>Establish procedures to collect consistent information from network businesses to support network performance and benchmarking reports</i></p>	<p>Achieved. We developed and issued regulatory information notices in 2013–14 to collect standard information from each network business for use in network performance and benchmarking reports. The first benchmarking report is due September 2014.</p>	
<p><i>Internally review our effectiveness in delivering the Better Regulation program, and report the outcomes to the COAG Energy Council (formerly the Standing Council on Energy and Resources)</i></p>	<p>Achieved. We assessed our effectiveness at the end of the program via a dedicated Better Regulation program management board. We reported the results to the COAG Energy Council in December 2013.</p>	

Strengthening stakeholder engagement



Establish the Consumer Challenge Panel (CCP) and appoint members with a breadth of experience by 1 July 2013

Achieved. We established the CCP and appointed members with a breadth of experience and expertise on 1 July 2013.



Promote and explain the CCP's role and operation to stakeholders

Achieved. The AER Chair and CEO gave presentations to network service providers on the role of the CCP at the Energy Networks Association Forum in November 2013. We also explained the CCP in a report to the ACCC/AER's Small Business Consultative Committee, briefed Senate estimates and provided updates on CCP interactions through the AER's Customer Consultative Group. CCP members regularly participate in discussions and give presentations at meetings held for the AER's jurisdictional consultative groups. Stakeholders can access information about the CCP at any time via a dedicated CCP webpage.



Hold monthly consumer reference group (CRG) meetings until we complete our guidelines development under the Better Regulation program

Achieved. The CRG met regularly throughout the program, including two face-to-face meetings funded by the AER. Further, the CRG created sub-groups on each workstream, which reported their views to the full CRG for further consideration and comment. The CRG and sub-groups met over 20 times during the program. Members also attended the Better Regulation workshops and forums.



Publish issues papers and notices of draft and final Better Regulation guidelines to account for substantive matters that the consumer reference group raises

Achieved. Each explanatory statement to our draft and final guidelines discussed our response to issues the CRG raised. Each explanatory statement also had an attachment with a full list of issues and our responses.









Hold three Consumer Consultation Group (CCG) meetings during 2013–14

Achieved. The CCG met on 15 August 2013, 14 November 2013 and 25 March 2014. We also reconstituted (and expanded) the membership of our CCG in April 2014 to broaden experience and expertise across members.



<i>Consult with the CCG before we release any retail market guidance or develop outreach and educational resources for energy consumers</i>	Achieved. We consulted and shared information regularly with our CCG members throughout 2013–14. In particular, we sought their input and feedback when developing our consumer intermediary training pack of materials and in developing our recent publication targeted at small business energy customers.	
<i>Consider substantive issues raised by the CCG, and report to the group on outcomes</i>	Achieved. We considered the issues raised by CCG members both during and outside CCG meetings. Each meeting agenda during 2013–14 had a standing item for members to raise issues for AER consideration. We reported back to the group on these issues in various ways including CCG meetings and regular teleconferences.	
<i>Publish our final customer engagement guideline for network service providers by 1 August 2013</i>	Partially achieved. We published the final consumer engagement guideline for network service providers on 6 November 2013. We found the level of interest from stakeholders warranted further consultation. We deferred publication to enable further face-to-face meetings with stakeholders. We could be flexible with our publication schedule because it was a voluntary guideline.	
<i>Publish regulatory decisions that clearly set out how we considered stakeholder views</i>	Achieved.	
<i>Engage with regulated businesses to encourage their development and effective implementation of consumer engagement plans</i>	Achieved. New South Wales, Queensland and South Australian distribution businesses developed and implemented consumer engagement strategies. The networks regularly update AER staff and the CCP on progress.	
<i>Publish a consumer engagement strategy by October 2013</i>	Achieved. Published 31 October 2013	
<i>Publish an AER service charter</i>	Achieved. Published 31 October 2013	

<i>Publish monthly Better Regulation newsletters during the guidelines development in 2013</i>	Achieved. We published a monthly newsletter until November 2013. Each newsletter summarised the previous month's events and the current month's upcoming events. It also included a 'spotlight' section on a particular Better Regulation workstream.	
<i>Achieve high levels of stakeholder satisfaction with the quality of our engagement during regulatory reviews</i>	Achieved. We were rated satisfactory to good for each engagement indicator in our 2014 stakeholder survey (see part Error! Reference source not found.).	
<i>Employ various media to help consumers engage on issues relevant to them, including forums, panels, groups, workshops, meetings, consultation and issues papers encouraging written submissions, websites, newsletters, speeches, and educational and outreach material</i>	Achieved. We engaged with consumer representatives on Better Regulation issues through the CCP and the CRG. We used a range of media to give consumers information on rights and protections under the Retail Law.	
<i>Write all our public documents in a clear and succinct manner, and include plain English explanations</i>	Achieved.	
<i>Respond to all Ministerial requests for information (including those from the COAG Energy Council) within 10 business days.</i>	Partially achieved. We received one request for information from the COAG Energy Council and nine requests from state and federal Ministers. We replied to eight requests within 10 business days. We did not meet the timeframe for two requests about complex issues.	
<i>Ensure stakeholders perceive us as a transparent and consultative decision making body</i>	Achieved. In our 2014 stakeholder survey, we were rated satisfactory for our overall engagement with stakeholders. We were also rated satisfactory for transparent decision making.	

Building consumer confidence in markets



Develop educational programs and materials that provide residential and small business customers with clear and useful information on their energy rights, and improve communitywide understanding of energy issues

Achieved. During 2013–14 we developed a range of materials and educational programs to give residential and small business energy customers information on their rights and protections under the Retail Law, including:









- an Avant card to coincide with the Retail Law commencing in New South Wales. The card promoted Energy Made Easy, included simple switching messages and tips and had a tear-off ‘call to action’ section. It won Avant card’s Postcard of the Month.
- the ‘Power to you’ brochure for everyday energy consumers with key messages on core rights and protections
- the ‘Managing energy services’ booklet for consumer caseworkers, detailing information on rights and protections to help them advise clients
- an A2 poster distributed and displayed in Centrelink offices nationally advising of help available for customers having trouble paying their energy bills
- the ‘Say Watt’ section on Energy Made Easy providing simple energy efficiency information
- the ‘Energy and your business’ brochure for small business customers with simple tips and information on saving energy and switching
- a new suite of information for small business energy customers in a dedicated section of the redeveloped Energy Made Easy website (to be launched in 2014–15).

Develop education and outreach programs that help small businesses understand their rights and obligations

Achieved. We developed a strategy and outreach program in consultation with small business stakeholders and developed a new tailored publication with dedicated distribution channels. We also partnered with a small business representative organisation to deliver targeted training, information and education forums during July to September 2014.



<p><i>Implement training for consumer intermediaries so they can help their clients make better choices about energy contracts and services. Receive satisfactory assessments from consumer intermediaries on this training</i></p>	<p>Ongoing. We consulted with CCG members to develop training material for consumer intermediaries and their clients on core rights and protections under the Retail Law. We will run pilot training sessions in each Retail Law jurisdiction from July to September 2014. We will obtain feedback on the material's usefulness and an assessment of the training from attendees at the pilot sessions.</p>	
<p><i>Continue to develop the Energy Made Easy website to promote better understanding of energy market issues by residential and small business customers</i></p>	<p>Achieved. Energy Made Easy continues to evolve with new articles and information to promote energy literacy and consumer choice. In September 2013 we consulted consumer groups, retailers, government departments and jurisdictional regulators on possible improvements to the website. We are currently implementing these enhancements.</p>	
<p><i>Obtain high satisfaction reports from residential and small business customers on using the Energy Made Easy website and finding it a trusted source of information</i></p>	<p>Achieved. We consistently receive positive feedback from consumers through Energy Made Easy's 'Contact Us' form. We also receive positive feedback through informal channels, including from consumer representatives and other government agencies.</p>	
<p><i>Ensure at least 95 per cent of generally available retail energy offers appear on the Energy Made Easy website within two business days of their submission by retailers</i></p>	<p>Achieved. This internal target reflects our commitment to ensuring Energy Made Easy users can access current and accurate information about available energy offers.</p>	
<p><i>Internally review our program to enhance the Energy Made Easy website, and report the outcomes to the COAG Energy Council</i></p>	<p>Achieved. We updated the COAG Energy Council about website enhancements in December 2013.</p>	
<p><i>Foster productive partnerships with community, consumer and government organisations, and establish processes to effectively share information</i></p>	<p>Achieved. Throughout 2013–14 we further developed and built upon our stakeholder networks to effectively share information on energy issues and to inform our activities. We developed partnerships with small business and consumer organisations to obtain input on education materials and training sessions and our upcoming hardship policy review. We reconstituted our CCG to broaden the experience and expertise of members and sought feedback on how to improve our dialogue with them.</p>	

<i>Consult with consumer representatives to identify barriers to effective engagement in energy markets, and implement strategies in response</i>	Achieved. In September 2013 we consulted with consumer representatives to identify barriers and particularly identify ways to improve Energy Made Easy. We are currently implementing these improvements, with changes to be rolled out in the second half of 2014. We kept consumer representatives informed via regular updates.	
Improving our capability		
<i>Publish the inaugural AER annual report for 2012–13 by 31 August 2013, accounting for the allocation of resources and the performance of our major work programs*</i>	Achieved, but released a month later than expected. We published the AER annual report on 19 September 2013. The report contained information on resource use, our 2012–13 work program and performance against a range of indicators	
<i>Report on the performance of our major work programs against program budgets and time parameters</i>	Achieved. We report on our performance in the AER annual report and the ACCC/AER annual report.	
<i>Publish our strategic priorities and work program for 2013–14, including target deliverables and performance indicators, by 31 July 2013*</i>	Achieved. We published these documents on 12 July 2013.	
<i>Report at least once every six months to the COAG Energy Council on our work program, the outcomes of our major projects, and market activity</i>	Achieved. We updated the COAG Energy Council on our key work and strategic issues before each biannual meeting.	
<i>Use increased in-house technical expertise (including engineering capabilities) to strengthen engagement with regulated businesses</i>	Achieved. We established the Technical Advisors Group in October 2013. The technical advisors advised on several projects.	
<i>Develop and implement improved data systems, and finalise the revised information requirements of energy businesses, before we commence the next round of regulatory reviews</i>	Ongoing. We are developing a database to store financial, operational and service performance information of network businesses. The core database will be implemented during the first half of 2014–15. We also developed revised information requirements.	
	As a transitional measure, accounting for some delay in the readiness of the main systems, we also enhanced our existing data and IT requirements to improve our information capabilities.	

<i>In regulatory decisions and compliance activity, draw on improved data systems, information requirements, analysis techniques and metrics.</i>	Ongoing. We have conducted data and model testing and validation processes for the economic benchmarks, and expect to draw on these in determinations and the benchmarking report in 2014–15.	
<i>Commission and publish a stakeholder survey of our performance</i>	Achieved. We conducted the stakeholder survey in April 2014. Results were published in the annual report (see part 4)	
<i>Achieve survey results demonstrating that stakeholders perceive us as an effective regulator. These results will include rising satisfaction with our timeliness, engagement and quality of reasoning and explanation in regulatory decisions and compliance activity.</i>	Achieved. We achieved an overall score of satisfactory or above for the indicators in the stakeholder survey.	
<i>Have the AER board and senior executives participate in strategic opportunities to communicate with stakeholders via speeches, forums and the media</i>	Achieved. The Chair and senior executives participated in forums and gave over 25 presentations, including four presentations that we published on the website.	
<i>Promptly respond to requests for information from the community, government and industry</i>	Achieved. In our 2014 stakeholder survey, we received an above satisfactory rating for our responsiveness to requests for information.	

* This key performance indicator also applied in the Publications and Submissions Work Program. For simplicity, we did not duplicate it.

Ongoing work program

Energy networks

<i>Complete a regulatory review under the old rules for the Victorian electricity transmission network (SP AusNet) by 31 January 2014</i>	Achieved. We published our final decision for SP AusNet's transmission network for 1 April 2014–31 March 2017 on 30 January 2014.	
<i>Complete regulatory reviews under transitional arrangements for the New South Wales and Tasmanian electricity transmission networks by 31 March 2014, and for distribution networks in New South Wales and the ACT by 30 April 2014</i>	Achieved. We published the placeholder determinations for the New South Wales and Tasmanian electricity transmission and New South Wales and ACT electricity distribution businesses on the required dates.	

<p><i>Meet timeframes to complete framework and approach processes under the new rules for the New South Wales and Tasmanian electricity transmission networks, the Directlink interconnector, and the distribution networks in Queensland, New South Wales, South Australia and the ACT</i></p>	<p>Achieved. We completed these processes by the required dates. We published the framework and approach papers for New South Wales and ACT distribution networks, the New South Wales and Tasmanian transmission networks and Directlink interconnector in January 2014. We completed the Queensland and South Australian distribution networks framework and approach papers in April 2014.</p>	
<p><i>Apply the revised service target performance incentive scheme in regulatory reviews for the New South Wales and Tasmanian electricity transmission networks</i></p>	<p>Achieved. We applied certain components of the revised scheme in the framework and approach papers for TransGrid (New South Wales) and Transend (Tasmania). These components apply during the transitional year, commencing 1 July 2014.</p>	
<p><i>Commence framework and approach processes under the new rules for the Victorian distribution networks</i></p>	<p>Achieved.</p>	
<p><i>Commence access arrangement reviews under the new rules for gas distribution networks in New South Wales</i></p>	<p>Achieved.</p>	
<p><i>Internally review our processes and outcomes for each regulatory review of energy networks, and report the outcomes to the COAG Energy Council</i></p>	<p>Achieved. This forms part of our regular reporting to the COAG Energy Council.</p>	
<p><i>Introduce a new investment test for electricity distribution (RIT-D) and associated guidelines by 31 August 2013</i></p>	<p>Achieved. We published the RIT-D and accompanying guideline on 23 August 2013.</p>	
<p><i>Resolve RIT-T and RIT-D disputes within legislated timeframes.</i></p>	<p>No disputes received.</p>	
<p><i>Avoid technical and factual errors in regulatory determinations (as found by the Australian Competition Tribunal)</i></p>	<p>Partially achieved. The Tribunal handed down three decisions in 2013–14. It upheld our remade regulatory determination for SP AusNet’s advanced metering infrastructure. It upheld parts of our decision for APA Gasnet and remitted other aspects back for us to remake. It also remitted back our Multinet decision.</p>	

<i>Complete annual tariff reviews for electricity distribution networks in the NEM and covered gas pipelines in jurisdictions other than Western Australia</i>	Achieved. We completed 28 annual tariff reviews for electricity distribution networks and gas pipelines.	
<i>Assess 2012–15 charges for Victorian advanced metering infrastructure and any budget revisions</i>	Achieved. We assessed each Victorian distributor's advanced metering infrastructure charges for 2014.	
<i>Publish annual performance reports on all electricity transmission networks (for 2011–12) and distribution networks in the NEM (for 2010–11 and 2011–12), and on Victorian gas distribution networks (for 2012)</i>	Partially achieved. We published the 2012 Victorian gas distribution performance report. We are currently developing a performance report for all electricity distribution businesses in the NEM, which will be published in 2014–15.	
<i>Assess pass through, contingent project and prudent discount applications within legislated timeframes</i>	Achieved. We assessed 11 pass through applications and the Heywood interconnector contingent project. We did not receive any prudent discount applications.	
<i>Resolve access and connection disputes within legislated timeframes</i>	Achieved. We processed all disputes in accordance with our published dispute resolution process.	
Retail energy markets		
<i>Support successful implementation of the Retail Law in those jurisdictions that apply it</i>	Achieved. The Retail Law commenced in New South Wales on 1 July 2013 and the implementation was successful. We are working with stakeholders on the proposed commencement of the Retail Law in Queensland on 1 July 2015.	
<i>Consult with stakeholders on revisions to the authorisation guideline and publish a revised guideline</i>	Not achieved. We reviewed the guideline and will consult on the proposed revisions in the first quarter of 2014–15.	
<i>Assess 90 per cent of retail authorisation and individual exemption applications within 12 weeks of receiving all relevant information</i>	Partially achieved. We approved six retailer authorisations and 16 individual exemptions in 2013–14. We assessed and approved all authorisation applications within the 12 week timeframe. We assessed and approved most applications for individual exemption (11 of the 16) within the relevant timeframe; 94 per cent were assessed and approved within 14 weeks.	

<p><i>Include applications for registrable exemptions (which we do not assess) on the exemptions register within 10 business days of receiving all relevant information</i></p>	<p>Achieved. On average, we published registrations within five business days.</p>	
<p><i>Assess the hardship policies of new entrant retailers, and any proposed amendments to approved policies, within 12 weeks of receiving all relevant information</i></p>	<p>Partially achieved. In 2013–14 we approved hardship policies for three new entrants, and varied two policies for current retailers. We approved two policies within the 12 week timeframe and the other three within 16 weeks. One policy submitted for approval remains unapproved. Two new entrant retailers had, at the time of authorisation, no plans to enter the residential customer markets, so we conditionally deferred approving the policies.</p>	
<p><i>Publish an annual performance report on the retail energy market, including a report on energy affordability, by 30 November 2013</i></p>	<p>Achieved. We published the Retail Market Performance Report on 26 November 2013.</p>	
<p><i>Publish quarterly performance reports on the retail market within three months of the relevant reporting period</i></p>	<p>Partially achieved. Except the first quarterly update for 2013–14, we published updates within eight weeks of the reporting period. We delayed the first quarter report because we implemented a new reporting format; all data (except for customer numbers and customer debt data) is published directly on the website.</p>	
<p><i>Seek expressions of interest periodically from additional retailers willing to take on RoLR functions.</i></p>	<p>Achieved. We sought expressions of interest from retailers willing to take on RoLR functions in June 2014.</p>	
<p><i>Conduct an exercise simulating a RoLR event and report on the outcome.</i></p>	<p>Achieved. We conducted an exercise simulating a RoLR event on 21 October 2013. 115 people from 55 organisations attended the exercise. On 19 November 2013, we published a report on the outcomes of the exercise on our website.</p>	
<p><i>If required, respond to a retailer failure following the procedures set out in our RoLR plan and guidelines</i></p>	<p>No retailer failures occurred during 2013–14.</p>	

Wholesale energy markets



Publish 75 per cent of our weekly reports on activity in the NEM and spot gas markets within 12 business days of the relevant trading week

Not achieved. We published 71 per cent of weekly reports within the required timeframe. The delays were caused by complex high price outcomes in the NEM, especially in the Queensland region, and by introducing new content. The average time to deliver the electricity weekly reports improved and gas weekly reports were delivered on time.



Publish within statutory timeframes our reports on extreme price events in the NEM (prices above \$5000 per megawatt hour) and significant price variations in spot gas markets

Achieved. We published four electricity reports and one significant price variation report for the June 2013 event in the Adelaide spot gas market.



Develop and publish metrics on market concentration and competitive conditions in the NEM

Achieved. We monitor structural and behavioural indicators of competition for each NEM region and published a range of indicators in the *State of the energy market 2013* report.



Submit a Rule change proposal to the AEMC, requiring generator ramp rates to reflect the plant's technical capacity

Achieved. We submitted a rule change proposal to the AEMC on 21 August 2013. The AEMC published a consultation paper in February 2014, to which we made a submission clarifying how we would enforce compliance with the rule.



Report on data irregularities in gas spot markets in Victoria, Sydney, Brisbane and Adelaide

Achieved. We report on data irregularities in gas spot markets in Victoria, Sydney, Brisbane and Adelaide as part of our gas weekly reports.



Expand and maintain our website publication of long term data on wholesale market trends

Achieved. We update core long term data regularly and we added to the stock of data on our website.



Compliance and enforcement

Industry wide



Apply a risk based approach to compliance and monitoring activities

Achieved. We base our compliance and monitoring activities on a risk assessment of the impact and likelihood of breaches. We applied our risk assessment process to changes to the legislation and to prioritise compliance monitoring activities.

We reviewed our Statement of Approach in April 2014, reinforcing our commitment to the risk based approach.



Finalise 50 per cent of compliance/enforcement matters within 60 business days and 90 per cent within 120 business days

Achieved. We completed 48 per cent of all matter compliance matters within 60 business days and 95 per cent within 120 business days



Investigate and close major compliance matters in a timely manner, and take appropriate enforcement action, consistent with our public statements of approach to compliance

Achieved.



Avoid successful challenges and appeals of enforcement matters

Achieved. We received no challenges or appeals in 2013–14.



Wholesale markets and energy networks



Produce, within six weeks of quarter end, quarterly compliance reports that educate stakeholders and promote a compliance culture in the industry

Achieved.



Complete technical audits of compliance systems for at least two generators and one transmission business, and report on the outcomes




Partially achieved. In 2013–14 we audited one generator (a wind farm) and one transmission business. This was the first time we reviewed a wind farm under the technical standards framework. We published our findings in our quarterly reports.



Conduct targeted compliance reviews each quarter of selected areas of the national energy rules, and include the outcomes in quarterly compliance reports

Partially achieved. In 2013–14 we reviewed two National Electricity Rule provisions, during the December 2013 and June 2013 quarters.



<p><i>Continue and complete strategic compliance projects: developing metrics on compliance with metering and settlement obligations; assessing generators' compliance with dispatch instructions; surveying connection applicants on arrangements for connection to transmission networks; assessing generators' compliance with outage data in medium term and long term forecasts; developing metrics to track businesses' performance in providing frequency control services; and assessing how businesses respond to power system incidents</i></p>	<p>Achieved. We continued and completed several strategic compliance projects in 2013–14.</p>	
<p><i>Review RIT-T and RIT-D processes undertaken by network businesses for compliance with the tests</i></p>	<p>Achieved. Concerns with network planning assessments were identified and raised with network businesses.</p>	
<p><i>Review participants' demand forecasts in the gas short term trading market for accuracy, and assess the impacts on balancing gas (market operator services)</i></p>	<p>Ongoing. We reviewed participants' demand forecasts in the gas STTM for accuracy, as part of our business as usual activities. We are currently assessing the impacts on balancing gas.</p>	

Retail markets



<p><i>Publish biannual compliance reports (in November 2013 and March 2014)—with accompanying notes for caseworkers and other consumer intermediaries—that educate stakeholders and promote a compliance culture in the industry</i></p>	<p>Partially achieved. We published our first annual compliance report under the Retail Law (for 2012–13) in November 2013 with accompanying notes for caseworkers. The report included information on identified compliance issues, the resolution of those issues, trends or patterns of concern, and future areas for AER focus in relation to compliance in retail markets.</p> <p>We published a report on outcomes from the small customer billing review in February 2014.</p>	
<p><i>Assess and respond to exception reports submitted by retailers and distributors, providing an initial response within two business days to exceptions raised in immediate reports (on matters including unlawful de-energisation of customers and protections for life support customers)</i></p>	<p>Achieved. All reports were acknowledged and recorded as they were received.</p>	
<p><i>Consult with stakeholders on amendments to our compliance procedures and guidelines, including exception reporting requirements</i></p>	<p>Partially achieved. We commenced consultation on amendments to the guidelines in June 2014, and will conclude consultation in 2014–15.</p>	
<p><i>Review by 30 September 2013 the information on New South Wales retailers' and distributors' websites, to ensure it is published in the appropriate form</i></p>	<p>Achieved. We conducted the review in July–September 2013.</p>	
<p><i>Conduct targeted compliance reviews of businesses' small customer billing arrangements and implementation of retailer hardship policies, and report the outcomes</i></p>	<p>Partially achieved. We reviewed small customer billing arrangements and published a report of our findings in February 2014. We commenced a targeted review of retailers' implementation of customer hardship policies in 2013 and will report the outcomes during 2014–15.</p>	

Publications and submissions



Publish the State of the energy market report in December 2013, with useful background material and analysis to assist policy reviews affecting energy markets Achieved.



Publish reports that are accessible, informative and well received in the market

Achieved. Our reports are well received in the market; our *State of the energy market report*, factsheets and annual report were rated above satisfactory for usefulness in the 2014 stakeholder survey.



Stakeholders considered the information the AER published was easily accessible and appropriately targeted. ‘Accessibility of information’ and ‘tailors communication to meet the needs of the target audience’ were rated satisfactory.

Make submissions to the AEMC, the COAG Energy Council and other policy bodies, which reflect our objectives and are based on our experience in regulating and monitoring markets

Achieved. In 2013–14 we made submissions on 17 policy processes.



PART 6
OUR PEOPLE



Our staff are committed to making Australia's energy markets work for consumers, now and in the future. By working professionally and expertly, we can make a real difference.

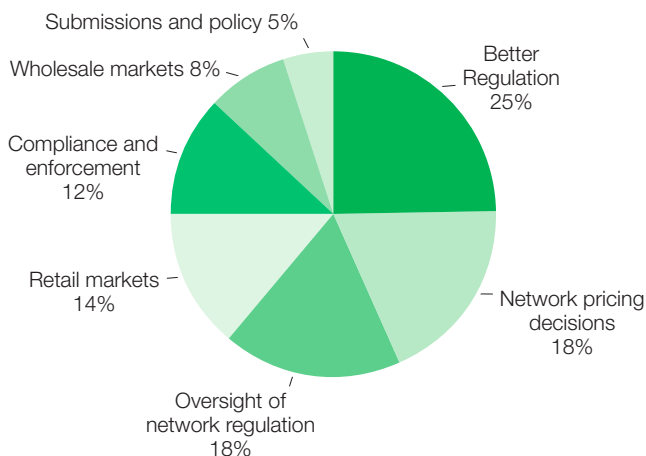
STAFF NUMBERS

Staffing in our branches averaged 128.8 full time equivalent (FTE) staff in 2013–14. This number included the state/territory board members and the CEO. Our staffing is supplemented by:

- staff from the ACCC’s legal and economic division. The combined contribution was around 13 FTE over the year. This total varies from year to year; in years when the Australian Competition Tribunal reviews our network pricing determinations, or enforcement matters are underway, the legal unit’s contribution rises. Similarly, in years when we undertake a large number of network pricing determinations, the regulatory economic unit’s contribution rises
- staff from the ACCC’s people and corporate services division
- staff from other ACCC branches that help us on an ad hoc basis.

Figure 6.1 shows where staff worked in 2013–14. The network regulation work areas absorbed most staffing resources. Better Regulation accounted for a significant proportion of staff time during 2013–14, as we completed the guidelines and implemented the program. The time spent on network pricing decisions will significantly increase with 16 network pricing processes underway.

Figure 6.1: Allocation of AER staff time across functions, 2013–14



STAFF TURNOVER

Our staff turnover for 2013–14 was 12.9 per cent. This was an increase from 2012–13, reflecting the Voluntary Redundancy Program the ACCC/AER offered to bring our budgets to a sustainable level.

OUR CAPABILITY

We are a broad based team of energy specialists—experts in wholesale and retail energy market operations, in energy network regulation, and in energy market compliance and enforcement. Reflecting the various demands of our work program, our team includes economists, engineers, lawyers and accounting/finance specialists.

Our current staff has a diverse range of relevant experience. Some staff joined us from other energy regulators, both state utility regulators and international energy regulators such as the Office of the Gas and Electricity Markets (Ofgem) in Great Britain. Others came from consulting firms and the energy sector. Even though we are a relatively young organisation, we have many staff with years of experience in energy sector issues. Over one quarter of our staff have more than 10 years’ experience in energy market issues. This broad skill base and experience gives us the flexibility to deal with a wide range of complex energy market issues.

BUILDING CAPABILITY

In 2013–14 we recruited to build our capability, particularly our in-house technical capacity (in electrical and gas system engineering, for example), to engage more directly and effectively with network businesses and other stakeholders. This expertise complements the internal expertise we already developed and supplements our externally sourced technical expertise in network issues. In addition, we have mechanisms in place to ensure we keep up to date with regulatory best practice.

We have had staff secondments and exchanges with AEMO, the AEMC and international regulators. We did a staff exchange with Alberta Market Surveillance Administrator in 2013–14. Three staff were seconded to the AEMO and AEMC. We also have an ongoing formal staff exchange arrangement with Ofgem; we hosted one Ofgem staff member in 2013–14.

LOOKING AFTER OUR PEOPLE

Training and development

In 2013–14 we increased staff capabilities, particularly the technical skill base, by offering learning and development opportunities. The Technical Advisors Group provided tailored courses on the principles of energy network planning, network operation and regulation. Training also included courses on negotiation and stakeholder engagement, writing skills and leadership.

Staff received another key development opportunity when the AER hosted a meeting of the Energy Intermarket Surveillance Group (EISG) from 14–16 October 2013. Sixty-two energy market monitoring agency representatives gathered in Adelaide to discuss electricity market monitoring, compliance and design issues. Attendees included market monitors from California, Ontario, Alberta, Japan, Singapore, Australia, New England, New Zealand, Philippines, Texas and the PJM market in the US (the largest electricity market in the world covering 14 US states). The third day of the meeting was devoted to training sessions on market monitoring approaches for junior staff. A range of presentations by some key EISG attendees on market design and emerging market issues in North American energy markets were held for all ACCC and AER staff.

As part of our performance development framework, each staff member also has an individual action plan to develop their capabilities. Regular reviews and one-on-one feedback sessions are key to the framework.

Wellbeing

Our staff's health and wellbeing is essential, so we stress the importance of an appropriate work–life balance. We have a workplace health and wellbeing program, focusing on both physical and mental health. In 2013–14 our staff participated in activities about mental health, the benefits of exercise and healthy eating and seeking help during times of need. We offered a healthy lifestyle reimbursement program, health check-ups and a winter vaccination program.

Remuneration

The Remuneration Tribunal determines AER board members' remuneration, in accordance with the *Remuneration Tribunal Act 1973*, Determination 2010/10 Remuneration and Allowances for Holders of Full Time Public Office. Table 6.1 sets out the nature and amount of AER board members' remuneration in 2013–14.

Table 6.1: Remuneration of AER board, 30 June 2014

Position	Base salary	Total remuneration of office
Chair	\$358 400	\$512 000
State/territory member	\$280 320	\$384 000
Commonwealth member (full time with the ACCC and AER)	\$322 560	\$460 800

We offer our staff competitive remuneration packages. Most staff are employed under an enterprise agreement that sets out remuneration, leave entitlements, and other working conditions and allowances. Under this agreement, staff received a 3 per cent salary increase on 1 July 2013. Our CEO, general managers and some specialist staff are subject to individual determinations covering remuneration, leave and other employment conditions.

Table 6.2 sets out AER staff (not board members) remuneration in 2013–14. It does not include superannuation contributions, allowances or performance pay.⁵

Table 6.2: Remuneration of AER staff, 2013–14

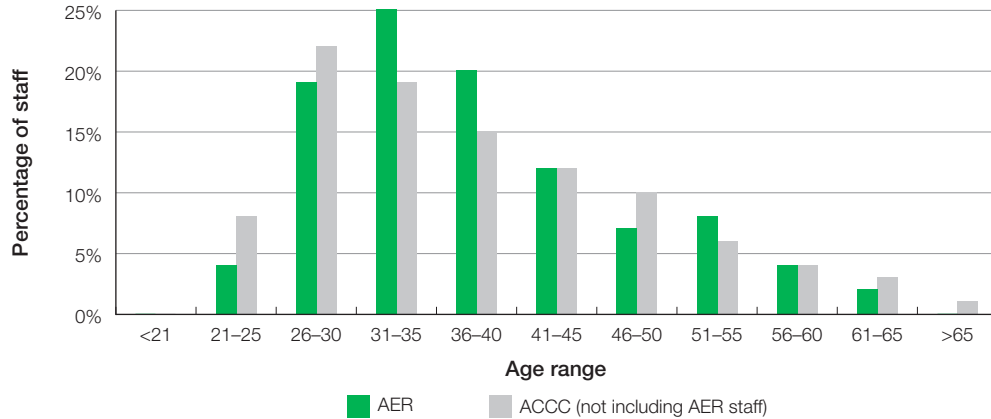
Annual Salary	Percentage of staff (%)
\$60 000 to \$80 000	21.3
\$80 000 to \$100 000	18.9
\$100 000 to \$120 000	30.7
\$120 000 to \$140 000	22.8
\$140 000 to \$160 000	0.8
\$160 000 to \$180 000	4.7
Above \$180 000	0.8

⁵ The remuneration data and the workforce planning data in this chapter included only core AER staff, not staff in the legal and economic division, the corporate services division or other branches that assist the AER.

WORKFORCE PLANNING—AGE, GENDER AND DIVERSITY PROFILE

We are committed to developing a sustainable AER. The age profile of our staff demonstrated a core of experienced staff, yet also reflected our commitment to employing and developing more junior staff (figure 6.2). Figure 6.2 also compares the ACCC's age profile.

Figure 6.2: Age profile of the AER and ACCC staff, 30 June 2014



We are also committed to a diverse workforce. Of our six senior managers, two are women, including the CEO. We offered tailored training for female employees aimed at building their self-confidence and encouraging their career development aspirations. Other diversity activities included the significance of reconciliation with Indigenous Australians, how numerous cultures make up Australia, how all employees should be embraced for who they are regardless of their sexual orientation, and strategies to improve our accessibility to employees with a disability.

Table 6.3 presents AER staff from Aboriginal or Torres Strait Islander backgrounds (ATSI); self-identified staff from culturally or linguistically diverse backgrounds (CLBD) and people with disabilities (PWD).

Table 6.3: AER workplace diversity profile, 30 June 2014

	Total number	Female	ATSI	CLBD	PWD
SES and ACCC/AER members	6	2		1	
APS4	3	3		0	
APS5	23	11		2	
APS6	24	9	1	11	
EL1	39	15		4	3
EL2	34	8		6	1
Totals	129	48	1	24	4
Proportion of the total (%)		37.21	0.78	18.60	3.10

A staff member could be classified under one, two or all three of these headings.

PART 7
OUR EXPENDITURE

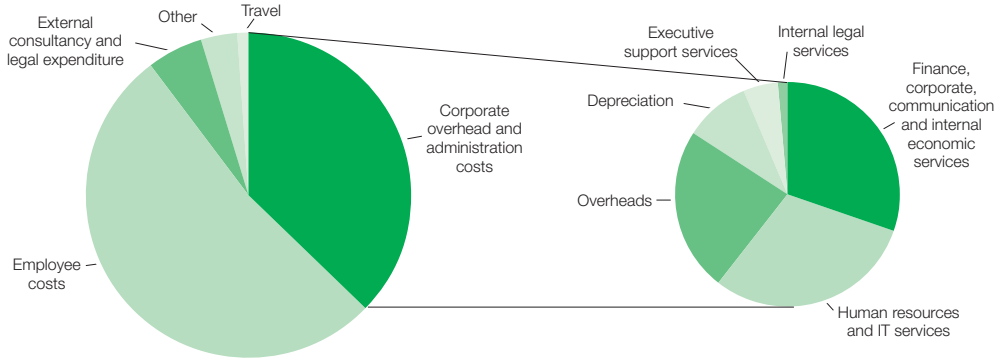


We aim to be transparent about our expenditure. Although the ACCC/AER annual report contains detailed financial reports for the combined ACCC and AER, this chapter provides a snapshot of the AER's expenditure in key areas.

TOTAL EXPENDITURE

The AER’s total expenditure for 2013–14 was just over \$34 million. We had five main categories: employee costs, external consultants and lawyers, travel, corporate overheads and administration, and other costs (figure 7.1).

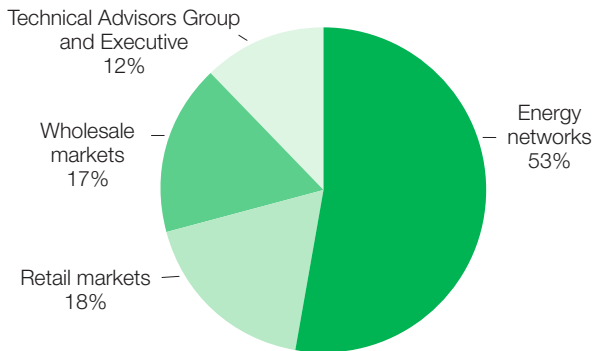
Figure 7.1: Total AER expenditure by category, 2013–14



EXPENDITURE BY WORK AREA

The AER’s direct expenditure, excluding our contribution to corporate overheads and administration costs shared with the ACCC, was around \$21.5 million. The majority of expenditure was in the network regulation area, which constituted the majority of staff time and expenditure on external consultants and lawyers. The network regulation area also drew heavily on the Technical Advisor Group. The AER also funded the Consumer Challenge Panel and the Customer Consultative Group to facilitate consumer input in network pricing decisions and retail energy market matters. Around \$2 million was allocated to support the technical advisors and consumer input.

Figure 7.2: Direct expenditure, by AER work area, 2013–14



EXPENDITURE ON CONSULTANTS

Our total expenditure on consultants in 2013–14 was just under \$1.5 million (GST exclusive), including consultancy contracts organised through our core branches. It excluded consultancy arrangements with experts who work on AER matters full time and work in our offices. It also excluded IT consultancy contracts, corporate consultancy contracts and consultancy contracts entered by the infrastructure regulation division for expert advice on regulatory economics issues (many of which will relate to matters before the AER board).

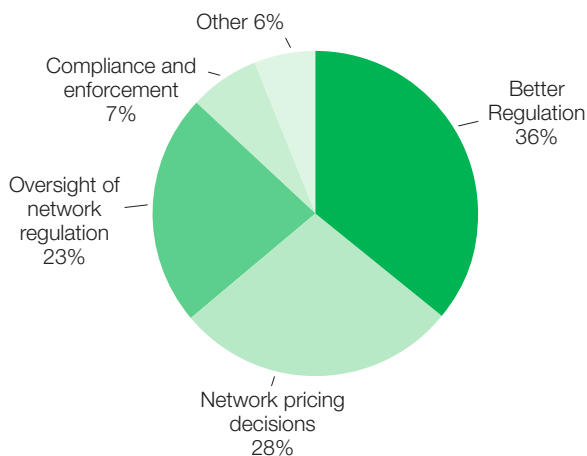
Most consultancy expenditure arose in the network area (over \$1.3 million during 2013–14), when we required experts to assist on complex issues for our guidelines or to assess network businesses' proposals. Our expenditure on consultancies for network pricing decisions is likely to remain significant in the short term, given the large number of network pricing decisions due in the next three years.

EXPENDITURE ON EXTERNAL LAWYERS

We use significant in-house legal expertise (see part 1). But we also use external lawyers, particularly for appeals to the Australian Competition Tribunal or the courts, enforcement matters and ad hoc advice. Our total expenditure on external lawyers in 2013–14 was just under \$0.5 million (GST exclusive). This figure excluded external legal advice sought by the corporate area (on human resource matters, for example).

Figure 7.3 presents the combined consultancy expenditure and external legal expenditure across work areas.

Figure 7.3: Consultancy and external legal expenditure, by AER work area, 2013–14



EXPENDITURE ON TRAVEL

We spent just under \$360 000 on travel in 2013–14. This expenditure was mostly on domestic travel, and included travel by board members, travel allowance, flights, ground travel and accommodation. One staff member travelled internationally, participating in a staff exchange with the Alberta Market Surveillance Administrator.

EMPLOYEE COSTS

Total wage and associated costs (for example, leave entitlements and superannuation) for AER staff were just under \$18 million for 2013–14. This figure included costs for AER board members and the Technical Advisors Group.

CORPORATE OVERHEADS AND OTHER COSTS

Our corporate overheads are combined with those of the ACCC. They include the costs of people and corporate services division staff (finance and corporate Services, information management and technology services, human resources, and strategic communications), legal and economic division staff, facilities/accommodation, IT contracts/capital and all other costs associated with our offices. Other significant cost allocations of the AER included redeveloping Energy Made Easy (\$0.75 million) and network database development (\$0.6 million).

PART 8
APPENDIXES



APPENDIX 1: AER SUBMISSIONS

Submissions to the reviews of the COAG Energy Council

Enforcement regimes under the National Energy Laws

On 10 September 2013 the AER provided the COAG Energy Council with a submission to its Review of Enforcement Regimes under the National Energy Laws. The submission provided comment on the review's draft report prepared by Allens and NERA Economic Consulting.

We considered the proposed amendments to the enforcement regime were in the long term interests of consumers and the integrity of the energy markets, but our submission identified some areas for further consideration.

Submissions to rule changes by the AEMC

Rebidding in good faith

In November 2013 the South Australian Minister for Mineral Resources and Energy submitted a rule change proposal to the AEMC, seeking to strengthen the current good faith provisions. In April 2014 the AEMC published its consultation paper as the first stage in the consultation process. The AER made a submission to the AEMC's consultation paper, supporting the SA Minister's rule change proposal. Our submission showed rebidding increased markedly since 2011 that is, the market is becoming less firm and participants are less able to rely on forecast information to make informed decisions. This is detrimental to efficient market outcomes.

Expanding competition in metering and related services

On 28 May 2014 we provided a submission to the AEMC's consultation paper on the rule changes proposed by the COAG Energy Council. The submission commented on a range of issues, but broadly supported reforms to remove exclusivity in providing metering and related services in NEM, facilitating competition where this can deliver greater efficiency benefits, innovation and choice for consumers.

Annual network pricing arrangements

On 4 July 2013 we provided a submission in response to the AEMC's rule change consultation paper. We supported a proposal by the Independent Pricing and Regulatory Tribunal of New South Wales (IPART), to bring forward the submission date for network tariff proposals, after considering certain implementation issues:

- accounting for revenue or cash flow risk (created by service providers' making forecasts in annual pricing proposals earlier in the year)
- changing the consumer price index that is used in AER regulatory determinations and
- the input of the Service Target Performance Incentive Scheme's S-Factor into transmission pricing.

Network service provider expenditure objectives

On 16 August 2013 we provided a submission in response to the AEMC's draft rule determination. We sought to clarify the potential issue with network service providers incorporating sufficient expenditure in their revenue proposals to maintain historical reliability standards when jurisdictional reliability standards had been lowered. We supported the amendments to the expenditure objectives, and considered the draft rule determination clarified expenditure requirements that is, the expenditure amount a network service provider incorporates for reliability in its regulatory proposal must be no more than what was required to comply with regulatory obligations.

Recovery of network support payments draft rule determination

On 2 October 2013 the AER provided a submission in response to the AEMC's draft decision on the rule change proposal to align the distribution provisions with the transmission provisions for recovering network support payments. The AER supported the approach, agreeing with the objective of minimising barriers to using network support to minimise inefficient network investment.

Governance of retail market procedures

On 29 November 2013 the AER made a submission in response to the AEMC's consultation paper on AEMO's requested rule change to retail market governance procedures. Specifically, the rule change covered retail market governance procedures under chapter 7 of the National Electricity Rules, including Business to Business procedures, as well as Market Settlement and Transfer Solution (MSATS) procedures. The submission focused on the proposed enforcement arrangements, and the impact of limiting the AER's MSATS enforcement options. We argued removing civil penalty provisions from the MSATS procedures would diminish our ability to enforce compliance with the procedures, and limit enforcement capabilities for the customer transfer process.

Distribution network pricing arrangements

On 18 December 2013 the AER made a submission to the AEMC's consultation paper on the distribution network pricing arrangements rule change proposal. This was a significant package of reforms that raised issues around the rationale for, and management of, a transition to more cost-reflective distribution pricing. The submission considered options for achieving more timely outcomes of price reviews and the timing for implementing reforms to upcoming revenue determinations.

Publication of zone substation data

On 29 January 2014 the AER made a submission to the AEMC's draft determination on the National Generator's Forum's proposal. The forum's proposal sought amendments to the NER that would require distribution network service providers to annually publish historical electricity load data at the zone substation level. We supported the rule change, arguing it would increase transparency and assist connecting parties to efficiently connect to the network.

Retailer price variations in market retail contracts

On 26 March 2014 the AER made a submission to the AEMC's consultation paper on retailer price variations in market retail contracts. This rule change was proposed jointly by the Consumer Action Law Centre and the Consumer Utilities Advocacy Centre. It sought to prohibit energy retailers from varying prices during fixed term or fixed benefit period market retail contracts. The AER, while supporting the objective of improving consumer confidence in the energy retail market, was concerned proposed regulatory intervention to ban price variations may reduce choice and raise prices for customers. We proposed other strategies may be more effective, such as improving consumer education and the transparency of information.

Generator ramp rates and dispatch inflexibility bidding

On 20 March 2014 the AER made a submission to the AEMC's consultation paper on the rule change request proposing that generator ramp rates and dispatch inflexibility profiles reflect the generating plant's technical capabilities. As a proponent of the rule change request, we argued generators sometimes use ramp rates and dispatch inflexibility profiles to achieve commercial objectives. This behaviour can produce inefficient market outcomes, and limit the AEMO's ability to efficiently manage electricity system security.

Submissions to AEMC reviews

NEM financial market resilience

On 15 July 2013 we made a submission in response to the AEMC's first interim report on its NEM financial market resilience review. Overall, we considered the proposed amendments to the ROLR regime and the introduction of a complementary special administration regime are in consumers' long term interests. We encouraged the AEMC to consider the issues that may also arise from a large gas retailer failing not addressing these issues is a major gap in a comprehensive financial resilience framework.

National framework for transmission and distribution reliability

On 13 August 2013 we made a submission to the AEMC's consultation paper on its review of the national framework for transmission and distribution reliability. The review sought to promote greater efficiency, transparency, and community consultation in setting and providing transmission and distribution reliability levels across the NEM. The AER generally supported the AEMC's proposals, suggesting ways to improve interactions between the reliability setting process and the revenue determination process.

Electricity customer switching

On 14 February 2014 the AER made a submission to the AEMC's consultation paper of its review of electricity customer switching. The review, requested by the COAG Energy Council, sought to determine if the current switching process is timely and accurate, and whether any modifications were required, having regard to future technologies that may impact on the switching process such as smart meters. The AER's submission focused on options that addressed the accuracy of the customer transfer process and the proposed metering data provider incentives scheme.

Framework for open access and communication

On 14 February 2014 the AER made a submission to the AEMC's draft report on a framework for open access and communication standards. The review, requested by the COAG Energy Council, sought to provide advice on open access and common communication standards to support contestability in demand side participation end user services enabled by smart meters. The AER generally supported the direction of the AEMC review, welcoming assurances that this technical review aligned with the direct metering contestability rule change proposal, and that the review's outcomes would be integrated with the metering contestability rule change.

Other submissions

Queensland Government—30 year electricity strategy discussion paper

On 6 December 2013 we made a submission to the Queensland Government's (through the Department of Energy and Water Supply) 30 year electricity strategy discussion paper. The strategy aims to ensure Queensland's electricity supply system remains secure, reliable and cost effective. We largely supported the issues the Queensland Government considered, but we also identified some areas requiring further consideration.

Department of Industry—Energy White Paper issues paper

On 17 February 2014 we made a submission to the Australian Government's Energy White Paper taskforce. The Energy White Paper will set out the Australian Government's position on energy policy. The AER encouraged the Government to take up the challenge of setting out a vision for the industry and a set of principles to follow as we transition to the smart electricity grid of the future.

APPENDIX 2: NEWS RELEASES AND SPEECHES

News releases for 2013–14

Title	Date
AER accepts SA Power Networks annual pricing proposal 2014–15	17 June 2014
Lumo Energy penalised over information system security breach	28 May 2014
AER appoints consumer and small business advocates to consultative group	29 April 2014
AER decision will lower prices for ACT and New South Wales electricity customers	16 April 2014
AER decision to provide more cost reflective and flexible transmission pricing arrangements	1 April 2014
AER approves South Australia-Victoria interconnector upgrade	31 March 2014
AER targets Red Energy with penalty	31 March 2014
Revenue determinations for Transgrid and Transend to reduce energy charges	28 March 2014
AER releases Victorian gas network performance report	6 February 2014
AER decision will reduce cost of Victorian electricity transmission	30 January 2014
Epic Energy pays infringement notice for data failures	20 January 2014
AER publishes State of the energy market 2013 report	20 December 2013
New rate of return guidelines mean more stable energy prices for consumers and more stable returns for networks	17 December 2013
Modest increase in Victorian network tariffs for 2014	10 December 2013
Electricity consumers to get a fairer deal	29 November 2013
AER report shines spotlight on Tasmanian energy market	26 November 2013
AER annual performance report shines light on retail energy markets	26 November 2013
Building consumer confidence in energy markets	26 November 2013
AER report shines spotlight on South Australian energy market	26 November 2013
AER report shines spotlight on ACT energy market	26 November 2013
Better energy regulation—focused on consumer priorities	6 November 2013
ACCC and AER issue joint 2012–13 annual report	1 November 2013
AER gains important ruling for consumers of Victorian gas	20 September 2013
AER issues inaugural annual report	19 September 2013
AER releases determination on South Australia–Victoria electricity transmission interconnector	4 September 2013
Better energy network regulation—a fairer deal for consumers	30 August 2013
AER issues draft decision on Victorian electricity transmission revenue	30 August 2013
AER releases new guideline to prevent excessive electricity network upgrades	23 August 2013

Tribunal affirms AER decision to reject increases in SP AusNet's smart meter prices	6 August 2013
AER decision on SA Power Networks cost pass through application	31 July 2013
AER releases electricity transmission sector performance report 2010–11	31 July 2013
Energy Made Easy gives New South Wales the power to compare	17 July 2013
AER establishes better consumer engagement on energy	1 July 2013

Speeches for 2013–14

Conference/Event	Speaker	Date
Commonwealth Bank Utilities Boardroom lunch roundtable—Melbourne	Andrew Reeves	19 June 2014
JP Morgan Roundtable discussion with institutional investors—Melbourne	Andrew Reeves and Chris Pattas	20 May 2014
RMIT University Workshop on Energy Regulation and Security—Melbourne	Andrew Reeves	6 May 2014
Australian Alliance to Save Energy Forum on Energy Productivity—Sydney	Warwick Anderson	4 April 2014
University of Melbourne: Evening class in the Master of Energy Systems—Melbourne	Andrew Reeves	16 April 2014
Monash University Law Chambers: Smart Demand, what's in it for consumers? Workshop—Melbourne	Chris Pattas	7 April 2014
South Australian Council of Social Service's National Consumer Roundtable of Energy Conference—Canberra	Andrew Reeves	27 March 2014
Goldman Sachs Australia: Q&A on Rate of Return Guidelines—Sydney	Andrew Reeves	19 March 2014
Electricity Network Regulation Operation & Maintenance Conference—Sydney	Chris Pattas	4 March 2014
API Summer School—Sunshine Coast	Chris Pattas	17 February 2014
Merrill Lynch Australia Roundtable event—Sydney	Andrew Reeves	29 January 2014
China Business Forum—Sydney	Andrew Reeves	29 October 2013
Young Energy Professionals function—Melbourne	Andrew Reeves	24 October 2013
Energy Users Association of Australia (EUAA) 2013 National Conference—Brisbane	Andrew Reeves	16 October 2013
Draft rate of return guideline—public information session via teleconference	Andrew Reeves	30 August 2013
ANZ Boardroom luncheon—Sydney	Andrew Reeves	29 August 2013
IPA Energy Forum—Melbourne	Andrew Reeves	20 August 2013
Ernst & Young—Luncheon address—Melbourne	Andrew Reeves	14 August 2013
Women in Electricity Networking Event—Melbourne	Michelle Groves	8 August 2013
National Consumer Roundtable on Energy—Brisbane	Andrew Reeves	26 July 2013

Energy Networks Association regulation seminar— Brisbane	Andrew Reeves	25 July 2013
Baillieu Holst lunchtime presentation—Melbourne	Andrew Reeves	18 July 2013
South Australia Council of Social Service's Hardship and Affordability conference—Adelaide	Andrew Reeves	10 July 2013

APPENDIX 3: DECISIONS, REPORTS AND CONSULTATIONS

Electricity transmission decisions

- Draft decision: Draft amendment to the electricity transmission service target performance incentive scheme (version 4.1), May 2014
- Final decision: Approve TasNetworks' ring-fencing waiver application, May 2014
- Final decision: Electricity transmission determination—Australian Energy Market Operator (AEMO) (Vic)—Regulatory control period 1 July 2014 to 30 June 2019, April 2014
- Final decision: Approve Heywood interconnector upgrade contingent project, ElectraNet (SA–Vic), March 2014
- Decision: Approve cost pass through application easement tax change event, SP AusNet, March 2014
- Transitional decision: Electricity transmission transitional determination—Transend (Tas)—Regulatory control period 1 July 2014 to 30 June 2015, March 2014
- Transitional decision: Electricity transmission transitional determination—TransGrid (NSW)—Regulatory control period 1 July 2014 to 30 June 2015, March 2014
- Draft decision: Approve TasNetworks' ring-fencing waiver application, March 2014
- Final decision: Electricity transmission determination—SP AusNet (Vic)—Regulatory control period 1 April 2014 to 31 March 2017, January 2014
- Decision: Reject application to pass through costs from service standard event—Powerlink service standard event cost pass through application, December 2013
- Draft decision: Australian Energy Market Operator (AEMO) (Vic)—Regulatory control period 1 July 2014 to 30 June 2019, December 2013
- Final decision: Unable to apply version 4 of the electricity transmission service target performance incentive scheme (STPIS) to a transmission business in their current regulatory control period, December 2013
- Decision: Accept that the investment proposal by ElectraNet and the Australian Energy Market Operator to upgrade the South Australia to Victoria (Heywood) electricity transmission interconnector satisfies the regulatory investment test for transmission, September 2013
- Final Decision: 2012-13 Network support pass through decisions for TransGrid and ElectraNet, November 2013
- Draft decision: Application of version 4 of the electricity transmission service target performance incentive scheme (STPIS) to a transmission business in their current regulatory control period, August 2013

Electricity distribution decisions

- Decision: Approved 2014–15 pricing proposals for Essential Energy, Endeavour Energy and Ausgrid (NSW), June 2014
- Draft decision: Reject application to pass through costs arising from a material increase in vegetation management—ActewAGL Distribution (ACT), June 2014
- Decision: Approve annual pricing proposals for Ergon Energy and Energex (QLD), ActewAGL (ACT) and Aurora (TAS), June 2014
- Decision: Issue notice under clause 6.9.1(a) of the NER to resubmit 2015–19 regulatory proposal—ActewAGL (ACT), June 2014
- Decision: Approve annual pricing proposals for 2014–15 financial year for Ausgrid, Essential Energy and Endeavour Energy (NSW) and SA Power Networks (SA), June 2014
- Draft decision: Determination of Victorian F-factor scheme incentive payments for reductions in fire-starts in 2013, June 2014

- Final decision: Approve cost allocation methods for Essential Energy, Endeavour Energy and Ausgrid, May 2014
- Final decision: Approve Ergon Energy ring-fencing waiver application, April 2014
- Transitional decision: Electricity distribution transitional determination—ActewAGL (ACT)—Regulatory control period 1 July 2014 to 30 June 2019, April 2014
- Transitional decision: Electricity distribution transitional determination—Ausgrid (NSW)—Regulatory control period 1 July 2014 to 30 June 2019, April 2014
- Transitional decision: Electricity distribution transitional determination—Endeavour Energy (NSW)—Regulatory control period 1 July 2014 to 30 June 2019, April 2014
- Transitional decision: Electricity distribution transitional determination—Essential Energy (NSW)—Regulatory control period 1 July 2014 to 30 June 2019, April 2014
- Draft decision: Approve Ergon Energy ring-fencing waiver application, March 2014
- Decision: Approve Ergon Energy solar bonus scheme pass through application, January 2014
- Final decision: Proposed charges for advanced metering infrastructure remote services in Victoria for SP AusNet 2014–15, December 2013.
- Decision: Approve EnergeX solar feed-in tariff cost pass through cost, December 2013
- Decision: Approve electricity network tariffs for Victorian distribution network service providers: CitiPower, Powercor, Jemena Electricity Networks, SP AusNet and United Energy, for the period 1 January 2014 to 31 December 2014, December 2013
- Decision: Approve Endeavour Energy's proposed capital and maintenance charges for a new energy efficient luminaire, November 2013
- Decision: Approve advanced metering infrastructure 2014 charges for Victorian distribution network service providers: United Energy, SP AusNet, Jemena, CitiPower, Powercor, October 2013
- Draft decision: Proposed charges for advanced metering infrastructure remote services in Victoria for SP AusNet 2014–15, October 2013
- Final decision: Determination of Victorian F-factor scheme incentive payments for reductions in fire-starts in 2012, September 2013
- Decision: Revised determination SP AusNet's Victoria distribution determination 2011–15, August 2013
- Decision: Approve vegetation management cost pass through for SA Power Networks, July 2013
- Decision: Approve 2012 demand management incentive allowance expenditure for Victorian distribution businesses: CitiPower, Jemena, Powercor, SP AusNet, United Energy, July 2013

Gas transmission and distribution decisions

- Decision: Accept annual tariff variations for Envestra (QLD), Envestra (SA), Allgas Energy (Qld), Dawson Valley Pipeline (Qld), June 2014
- Decision: Approve 2014–15 tariff variations for NSW, ACT and NT gas businesses: Jemena Gas Networks, ActewAGL Distribution, Central Ranges Pipeline (transmission), Central Ranges Gas Network (distribution), and the Amadeus Gas Pipeline, May 2014
- Final Decision: Approve Roma to Brisbane pipeline 2012–13 carbon price cost pass through application, May 2014
- Decision: Approve 2014 gas distribution and ancillary reference services tariffs for Multinet, Envestra Albury, Envestra Victoria and SP AusNet, November 2013
- Decision: Remade access arrangement decision for APA GasNet's Victorian Transmission System, November 2013
- Decision: Remade access arrangement decision for Multinet's Victorian gas distribution network, October 2013

Wholesale energy market decisions

- Decision: Issue infringement notice—enabling unauthorised persons to have access to the Australian Energy Market Operator’s market systems, Lumo Energy Australia Pty Ltd, May 2014
- Decision: Issue infringement notice—Failure to test metering equipment, Red Energy Pty Ltd—\$20 000, March 2014
- Decision: Issue infringement notice—Submitting incorrect pipeline data to the Australian Energy Market Operator, Epic Energy South Australia Pty Ltd—\$20 000, January 2014

Retail energy market decisions

- Decision: Granted Geits ANZ Pty Ltd an individual exemption for the sale of electricity, June 2014
- Decision: Granted Infinity Solar No 131 Pty Ltd an individual exemption for the sale of electricity, June 2014
- Decision: Granted Solar Financial Solutions an individual exemption for the sale of electricity, June 2014
- Decision: Granted Sungevity Australia Pty Ltd an individual exemption for the sale of electricity, June 2014
- Decision: Granted Voltaic Energy Pty Ltd an individual exemption for the sale of electricity, June 2014
- Decision: Granted Zero Cost Solar Pty Ltd an individual exemption for the sale of electricity, June 2014
- Decision: Granted Applied Environment Solutions Pty Ltd an individual exemption for the sale of electricity, June 2014
- Decision: Granted REpower Shoalhaven Incorporated an individual exemption for the sale of electricity, June 2014
- Decision: Granted Solar Professionals Pty Ltd an individual exemption for the sale of electricity, June 2014
- Decision: Granted Suntrix Commercial Pty Ltd an individual exemption for the sale of electricity, June 2014
- Decision: Granted Macquarie Bank Ltd electricity retailer authorisation, April 2014
- Decision: Approved surrender of electricity and gas retailer authorisations—Australian Power and Gas Pty Ltd, March 2014
- Decision: Granted CovaU Pty Ltd electricity and gas retailer authorisations, February 2014
- Decision: Granted Tindo Asset Management Pty Ltd an individual exemption for the sale of electricity, February 2014
- Decision: Granted SEL Absolute Return Fund SA Pty Ltd (Solar Wholesalers) an individual exemption for the sale of electricity, February 2014
- Decision: Granted Australian Clean Energy Finance Fund an individual exemption for the sale of electricity, February 2014
- Decision: Granted The Smarter Group (Smart Commercial Solar) an individual exemption for the sale of electricity, January 2014
- Decision: Granted Demand Manager Pty Ltd an individual exemption for the sale of electricity, January 2014
- Decision: Granted Express Solar Pty Ltd an individual exemption for the sale of electricity, January 2014
- Decision: Granted CO Zero Pty Ltd an electricity retailer authorisation, December 2013
- Decision: Granted Pooled Energy Pty Ltd an electricity retailer authorisation, December 2013
- Decision: Granted People Energy Pty Ltd an electricity retailer authorisation, October 2013

Reports

- Transmission service standards compliance reports 2013: Powerlink, Transend, ElectraNet, Directlink, Murraylink and TransGrid, May 2014
- Expert's report on the equity beta for regulated energy networks, May 2014
- Overview of the Better Regulation reform package, April 2014
- Transmission service standards compliance reports 2013: SP AusNet, March 2014
- Assessment of Consumer Reference Group: Better Regulation program, March 2014
- National Energy Retail Law: Small customer billing review report, February 2014
- Annual report on the performance of the retail energy market for 2012–13, revised, February 2014
- Victorian gas distribution businesses—Comparative performance report 2012: Envestra, Multinet and SP AusNet, February 2014
- State of the energy market report, December 2013
- Energy Made Easy poster and postcard, December 2013
- Annual report on the performance of the retail energy market for 2012–13, November 2013
- National Energy Retail Law annual compliance report 2012–13, November 2013
- Stakeholder engagement framework, October 2013
- Service charter, October 2013
- AER annual report, September 2013
- Special report on market outcomes in South Australia during April and May 2013, August 2013
- Transmission network service provider performance report 2010–11, July 2013
- Strategic priorities and work program 2013–14, July 2013
- Retail energy quarterly market performance updates, July 2013, February 2014, March 2014, May 2014
- Better Regulation update newsletters, July 2013, August 2013, September 2013, October 2013, November 2013
- Quarterly compliance report: National electricity and gas laws, July 2013, October 2013, May 2014
- Electricity reports, weekly
- Gas reports, weekly

Guidelines and guideline consultation

- Consultation: AER Statement of approach—Regulation of alternative energy sellers, June 2014
- Consultation: Electricity transmission and distribution network service provider information—Annual benchmarking reporting, May 2014
- Guideline: Enforcement and compliance statement of approach, April 2014
- Consultation: Pricing methodology guidelines—Modified load expert charge between transmission network service providers—issues paper, April 2014
- Guideline: National Energy Retail Law compliance statement: standing offer prices and proposed carbon tax repeal, April 2014
- Consultation: Better Regulation program—Rate of return guideline—Return on debt—issues paper, April 2014
- Final guideline: Better Regulation program—Rate of return guidelines, December 2013
- Final guideline: Better Regulation program—Expenditure incentives, November 2013
- Final guideline: Better Regulation program—Expenditure forecast assessment, November 2013
- Final guideline: Better Regulation program—Shared asset, November 2013
- Final guideline: Better Regulation program—Confidentiality, November 2013
- Final guideline: Better Regulation program—Consumer engagement, November 2013

- Consultation: Regulation of alternative energy sellers—issues paper, October 2013
- Consultation: Better Regulation program—Rate of return guideline—Equity beta—issues paper, October 2013
- Consultation: Better Regulation program—Rate of return guideline—Joint stakeholder forum, October 2013
- Consultation: Better Regulation program—Draft rate of return guideline public teleconference—Speech and Q&As, September 2013
- Draft guideline: Better Regulation program—Rate of return, August 2013
- Revised guideline: Network service provider registration exemption, August 2013
- Guideline: Regulatory investment test for distribution, August 2013
- Guideline: Generator performance standards information booklet, August 2013
- Draft guideline: Better Regulation program—Expenditure forecast assessment, August 2013
- Draft guideline: Better Regulation program—Expenditure incentives, August 2013
- Draft guideline: Better Regulation program—Confidentiality, August 2013
- Draft guideline: Better Regulation program—Shared asset, July 2013
- Guideline: Retail exempt selling, July 2013
- Draft guideline: Better Regulation program—Consumer engagement, July 2013

APPENDIX 4: PORTFOLIO BUDGET STATEMENT DELIVERABLES AND KEY PERFORMANCE INDICATORS

This appendix lists the deliverables and key performance indicators in the Portfolio Budget Statement: Treasury Portfolio budget papers that relate to the AER. Many of the deliverables and key performance indicators closely align with those listed in part 3 of this report.

Program objective

The Australian Energy Regulator (AER) is the national energy market regulator. The AER's roles encompass the retail and wholesale electricity and gas markets and energy network infrastructure.

The objectives of the national energy legislation guide the AER's priorities and work program. The common objective through the legislation is to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of end users of energy.

Deliverables

1. Maintain and promote competition in wholesale energy markets
 - monitor wholesale electricity and gas markets to ensure compliance and take enforcement action where necessary
 - apply a risk based approach to compliance and monitoring activities, and
 - publish information on energy markets, including the annual State of the energy market report.
2. Building consumer confidence in energy markets
 - monitor the performance of energy retailers and distributors in respect of their obligations under the Retail Law and provide comprehensive, clear and regular reporting on performance to inform consumers
 - encourage a culture of regulatory compliance by energy businesses through provision of clear information on our expectations and through effective and timely enforcement action when appropriate
 - engage with consumers and their representatives to identify, develop and implement strategies to address the barriers to effective engagement by consumers in energy markets, and
 - further develop the Energy Made Easy website as the source of trusted information for consumers on the energy market, protections available to energy consumers and how to find the best retail energy offer for them.
3. Promote efficient investment in, operation and use of, energy networks and services for the long term interests of consumers
 - deliver network regulation that promotes efficient investment in and operation of energy networks in the long term interests of energy consumers
 - develop and implement guidelines and incentive schemes in accordance with the new framework for network regulation to enhance our regulation of monopoly infrastructure
 - improve data analysis techniques and metrics to inform regulatory decisions and disseminate relevant information to stakeholders to allow them to better engage in the regulatory process
 - participate in the further development of the regulatory regime to provide efficient incentives for demand side participation by energy suppliers and customers and develop appropriate schemes and guidelines for this purpose, and
 - encourage businesses to implement consumer engagement strategies that are effective for all customers.
4. Strengthening stakeholder engagement in energy markets and regulatory processes
 - further develop ways of engaging with energy consumers and their representatives, particularly through appropriate consumer consultative forums such as the Customer Consultative Group and the Better Regulation program Consumer Reference Group

- prepare written communications that are clear and provide consumers with information they value and help them engage more effectively in regulatory processes. For example, through publication of issues papers to guide consumers on considering material issues, and
- establish a Consumer Challenge Panel to provide expert advice on issues of significance to consumers within the regulatory process.

Key performance indicators

1. Maintain and promote competition in wholesale energy markets
 - effective enforcement and compliance activities that promote a culture of compliance in the energy sector and address identified harms and risks
 - compliance and enforcement actions that improve market outcomes for market participants and consumers, and
 - accurate, targeted, timely and accessible reports on the industry.
2. Building consumer confidence in energy markets
 - successful implementation of the Retail Law in those jurisdictions which adopt the Law
 - accurate, timely and accessible performance reports on the energy businesses in respect of their retail law obligations
 - compliance and enforcement actions that improve market outcomes for consumers
 - clear, accurate and accessible information for consumers on energy retail markets, including through the Energy Made Easy website, and
 - market rule and policy processes that improve energy market outcomes in the long term interest of consumers.
3. Promote efficient investment in, operation and use of, energy networks and services for the long term interests of consumers
 - timely, considered and evidence-based network regulatory decisions, through constructive engagement, enhanced technical expertise and greater use of data analysis and intelligence
 - regulatory determinations and other decisions in accordance with the prescribed processes and timeframes,
 - successful implementation of new guidelines and schemes under new network regulatory framework within set time-frames,
 - implementation of new analytical techniques, information requirements and data systems to better inform decision-making, and
 - network service provider performance and benchmark reports that facilitate comparisons between businesses.
4. Strengthening stakeholder engagement in energy markets and regulatory processes
 - establishment and effective utilisation of the Consumer Challenge Panel,
 - active consumer participation, either directly or through representative bodies, in regulatory processes,
 - regulatory processes that clearly set out how consumer views are taken into account, and
 - network businesses behaviour in respect of consumer engagement is positively affected by the frameworks the AER develops.

APPENDIX 5: STAKEHOLDER SURVEY COMPARABLE INDICATORS

A number of indicators were amended or deleted from the 2008 and 2011 survey for the 2014 survey.

Comparing 2008 and 2011 indicators to 2014 indicators

The following table indicates where the amendments were made to the indicators and how comparisons were made between the two survey instruments.

2014	2008 and 2011
Performance	
Understands impact of decisions	Understanding of the impact of decisions
Decisions based on evidence and robust analysis	Analytical/intellectual capacity
Independence in decision making, e.g., decisions not inappropriately influenced by political interests, lobby groups or particular market participants	Independence
Timeliness of decisions	Timeliness
Conduct within the legislative framework	Conduct within the legislative framework
Fosters productive partnerships with stakeholders	Cooperative
Trustworthy, e.g., communicates honestly and directly and act respectfully	Professionalism
Leadership in pursuing or promoting priority issues in the energy sector	Leadership
Engagement	
Opportunity for stakeholder input	Do the AER's consultation processes provide adequate opportunity for consultation with stakeholders?
Clear, accurate and timely communication used in engagement	If you have participated in a consultation process led by the AER, please rate communication during the consultation process (i.e. about timelines, decision making progress, reporting back etc)
Accessible and inclusive engagement, e.g., relevant stakeholders notified and information provided to allow meaningful participation	If you have participated in a consultation process led by the AER, please rate communication about consultation opportunities
Communication	
Communication of role and responsibilities	Communication of role
Tailors communication to meet the needs of target audience	Relevance of information
<i>State of the energy market report</i>	<i>State of the energy market report 2010</i>
AER Website	Website

Technical capability

Technical capability

Technical competence

Indicators that were not used in 2014

The following 2008 and 2011 indicators were not included in the 2014 stakeholder survey:

Performance

- Please rate the following aspects of the AER's performance:
 - Processes
 - Governance
 - Impartiality
- Do you believe the AER is fulfilling its statutory role in protecting the long term interests of Australian consumers with regard to price, quality and reliability of energy services?

Reputation

- Please rate how well the following words describe the reputation of the AER:
 - Credible
 - Reliable
 - Effective
 - Helpful
 - Technically competent

Communication

- Please rate the following aspects of the AER's communication processes and materials:
 - Communication of outputs
 - Responsiveness
 - Quality of information
- Please rate the following AER communication tools:
 - Retail guidelines
 - Price and revenue cap determinations
 - Compliance and investigation reports
 - Compliance bulletins
 - Weekly gas market report
 - Weekly electricity market report
 - Subscriber email
- If there are any other communication tools or ways you would like to receive information from the AER, please indicate.