

AER Annual Report 2018–19

December 2019



AUSTRALIAN
ENERGY
REGULATOR



Australian Government

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
Tel: 1300 585 165

Email: aerinquiry@aer.gov.au

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AER year in review 2018–19



6.9 million
EME website views

37 000
offers published

2.9 million
AER website views

3200
documents published

NETWORKS



7 final electricity network revenue decisions completed
4 regulatory reviews of electricity networks progressed



1 gas access arrangement decision completed

ANNUAL TARIFF APPROVALS



14 electricity distribution
9 gas transmission

MARKET PERFORMANCE



87 weekly electricity and gas monitoring reports published
6 reports published on high price electricity events

ENGAGEMENT



26 speeches at Australian and international forums
650 communications notices
37 media releases

INFRINGEMENT NOTICES



16 issued under National Energy Retail Law and National Energy Retail Rules
3 issued under the National Electricity Rules

PENALTIES



\$220 000 issued for contraventions of the life support rules

COMPLIANCE AUDITS



5 published
3 initiated

CONSUMERS



50 retailers' hardship policies reviewed

SUBMISSIONS



22 submissions to AEMC rule change processes
28 submissions to policy reviews



Chair's review

My tenure as the Chair of the AER is soon to end, and it is with great pleasure and more than a little satisfaction and pride that I present this annual report, along with some comments about what I feel we have achieved as an organisation during the past five years and specifically during 2018–19.

Five years ago I set out with a clear focus on the regulation of networks. As an organisation we worked together to put into practice new tools such as the Consumer Challenge Panel (CCP), benchmarking and Rate of Return (ROR) guidelines, and we have called on a more collaborative approach that puts consumers at the heart of our decisions, bringing them into the process—a process that focuses on understanding and testing proposals and what lies behind them and on delivering decisions that everyone can understand. Australia's national electricity and gas markets have changed dramatically through this time as they continue to respond to a diverse range of challenges and opportunities—technological, political and social.

At the same time, the AER has changed. We have more than doubled in size during the past five years. Our budget expanded by almost 60 per cent during the same period, reflecting an appropriate expansion of both our role and our responsibilities in overseeing Australia's dynamic energy market as it embarks on the transition to a new age of energy generation.

This expansion of roles and responsibilities also prompted a corresponding re-evaluation of the AER's governance and organisational structures, culminating over the past year in the implementation of an ambitious transformation program that better aligns our workforce and culture to meet the needs of a fast-changing market and the energy consumers who rely on us so that we keep their long-term interest at the centre of all we do.

Our ongoing objective has not changed; we continue to be guided by the energy objectives, which are about the achievement of economic efficiency in the long-term interests of energy consumers with respect to price, quality, safety, reliability and security of supply of energy. However, we are more agile and adaptable than ever before in how we achieve this and as we operate in an era of unprecedented change in both the electricity and gas markets.

As part of the Energy Security Board, the AER contributes to the implementation of the Council of Australian Governments (COAG) Energy Council agreed energy market reforms put forward by Australia's Chief Scientist, Dr Alan Finkel AO.

Through the Energy Security Board, the AER provides ongoing advice to the COAG Energy Council on energy market development, including on the ACCC retail electricity price review recommendations. We are also supporting consultation on the post-2025 design of the National Electricity Market (NEM).

We are well advanced on the development of the interim guidelines that will enable the Retailer Reliability Obligation to help ensure there is sufficient firm, dispatchable capacity to meet peak demand in each region of the NEM. This has been—and will continue to be—a significant program of work for the AER, with final guidelines for liquidity, contracts, firmness, forecasting and compliance to be set by the end of 2020.

Keeping consumers at the centre of it all is and shall remain our priority, as we are acutely aware that the operation of a secure and reliable NEM lies at the heart of Australia's economic prosperity and development.

One of our important innovations is the Consumer Challenge Panel (CCP), which has continued to deliver tangible benefits in 2018–19. The CCP is a group of dedicated Australians who have relevant expertise in the fields of economic regulation, energy networks and consumer regulation. Its role is to ensure the AER is taking into account the consumer viewpoint in network determinations. Their role is to challenge the AER and the network businesses we regulate from a consumer's perspective. As such, the CCP has become valuable in ensuring that consumers and their long-term interests remain at the forefront of our regulatory decision-making process.

It is very important that stakeholders who are impacted by our decisions are engaged in our processes. This was the impetus to initiating the CCP; however, we continually looked to other means to increase the consumer voice into our decision-making: in developing the RoR guidelines, we established the Consumer Reference Group (CRG). Not only was this valuable input for us but there was also resounding agreement that having the CRG meet with the investor and networks reference groups provided opportunities to understand different points of view.

Since 2009 the Customer Consultative Group (CCG) has been providing us with valuable advice in relation to our functions under the energy laws affecting energy consumers across participating jurisdictions. The CCG also provides us with a venue to test whether our outreach and communications are effective.

We are exploring ways to embed consumer views in an increasingly practical way through our NewReg initiative. The initiative is about developing a new dialogue and a better process to align interests so that revenue proposals and AER determinations reflect the interests of consumers. Stakeholders have also been more active in our processes as evidenced by the increasing number of submissions we received over the year.

Today, the networks that the AER regulates must consult their consumers about any future proposal before they submit a proposal to us, thus placing greater importance on finding the most efficient way of meeting consumer preferences. In keeping with this aim, we have taken an in-depth look at forecast capital expenditures, alongside consumer representatives and businesses. At the same time we have continued with our various public forums, all designed to promote more consumer engagement—and, indeed, engagement of all stakeholders—with the market. Specifically, we have used these channels to engage with consumers on our RoR consultation and the NewReg pilot scheme. The result of all of this is processes that are more collaborative than adversarial and that are focused on understanding the different points of view in assessing network proposals.

We have encouraged TransGrid's work with consumers to develop an innovative way of approaching Powering Sydney's Future project, which will help to ensure that TransGrid has the revenue it needs to provide safe and reliable services to its customers, ensuring that timing is such that consumers do not have to fund the project before it is needed. Given that the market is changing so rapidly, this also helps to avoid investment in costly assets that in a few years may not actually be needed.

Our efforts to work with stakeholders involved in the cost benefit analysis of the regulatory investment test for transmission (RIT-T) is helping to provide for streamlined regulatory approvals without compromising the rigour those reviews require. This is particularly pressing for the Group One projects identified in the Australian Energy Market Operator's inaugural Integrated System Plan. We will continue to work with all proponents in this area.

Our new binding hardship guidelines set clear obligations for retailers in terms of how they treat customers who are experiencing hardship. This means that there is no longer any doubt about customer rights and our ability to enforce them.

In the area of compliance and enforcement, we are expecting changes to the legislation bringing about new civil penalty provisions and the ability to compel oral evidence and more quickly deploy our information gathering powers. This will strengthen our toolkit in promoting a culture of compliance. Our new Compliance and Enforcement policy makes it clear that we are getting started right away.

In order to ensure appropriate levels of compliance, reliable information is key. As such, this year we have continued to invest in systematically monitoring and reporting on the effectiveness of market arrangements, identifying barriers to achieving the desired state and enforcing compliance when breaches to energy laws and rules occur.

Accuracy, timeliness and transparency of information provides critical market signals to the industry and helps to inform policy direction or rule changes that may need to be considered. In addition, community, industry and government need to trust that we will take appropriate action in response to non-compliance.

The wholesale market is undergoing massive change with the exit of synchronous generation, the entry of variable renewable energy, new means of providing ancillary services and demand-side participation. The Retailer Reliability Obligation took effect on 1 July 2019 and will help ensure that there is sufficient firm, dispatchable capacity available when and where it is needed. The changing dynamics make our role in monitoring the wholesale market even more important. Transparency of information in both the gas and electricity markets, compliance with market rules and laws as well as unbiased, accurate and timely reporting will remain a key focus for us.

As the agency that implements the rules, monitors performance and enforces compliance with energy rules and laws, we are well placed to contribute to the energy policy debate and development. We have established a policy branch, which also addresses a stakeholder desire that we take a strong thought leadership role to better inform the future form of rules and guidelines, particularly for better outcomes for consumers. We have been effective in developing the Default Market Offer (DMO), which is aimed at addressing unjustifiably high standing offers. The DMO will also be used as a reference price to help address the ongoing concern of confusion over market offer discounts. Our policy branch is also developing the Value of Customer Reliability—which is an assessment of the value that different consumers place on reliability.

I have never been more acutely aware of the responsibilities we carry as a regulator. In a market that is under massive transition and increasingly scrutinised, it is more important than ever that as a regulator we focus on communication. A trustworthy and respected regulator is one that can communicate in a measured and strategic way. Our audience extends to those who have an interest beyond the technical and complex detail of regulation.

The AER looks forward with a renewed and strengthened focus on independence, transparency and accountability. I am confident that the AER has the clear and proper purpose it needs to leverage the expertise of our staff and Board members, and the contributions made by energy consumers and other stakeholders, to help navigate the challenging path ahead.

Paula Conboy Chair, Australian Energy Regulator

Part 1

Governance and management

Our work in energy

The Australian Energy Regulator (AER) works to make all Australian energy consumers better off, now and in the future. We regulate energy markets and networks in all jurisdictions other than Western Australia.

Our work is guided by five strategic objectives, which are detailed in our published *Strategic statement*. In particular, we strive to:

- drive effective competition where it is feasible
- provide effective regulation where competition is not feasible
- equip consumers to participate effectively, and protect those who are unable to safeguard their own interests
- use our expertise to inform debate about Australia's energy future, the long-term interests of consumers and the regulatory landscape
- take a long-term perspective while also considering impacts on consumers today.

These strategic objectives are reflected across our diverse and expanding work program. In summary, our key work is to:

- determine how much revenue network businesses can earn distributing energy to customers, via electricity poles and wires and gas pipelines, in all states and territories except for Western Australia (WA)
- help consumers to make confident, informed choices when choosing an energy contract, both through our price comparator website Energy Made Easy and by making consumers aware of protections that are available to them. We perform this role in Queensland, New South Wales (NSW), South Australia (SA), Tasmania and the Australian Capital Territory (ACT)
- monitor wholesale energy markets to detect market irregularities and manipulation, as well as instances of participant non-compliance with the market rules. Currently, we perform this role for the National Electricity Market (NEM) and wholesale gas markets in southern and eastern Australia
- ensure energy businesses comply with the energy legislation and rules, and take enforcement action where necessary
- help the community understand energy market issues, including through our *State of the energy market* report.

We support the Council of Australian Governments (COAG) Energy Council, with advice on energy market activity and issues as they arise.

This annual report reports on work program for the 2018–19 period.

AER Board

The three member AER Board has extensive energy sector and infrastructure regulation experience. It exercises the agency's decision making responsibilities as set out in the energy legislation and rules, sets strategic direction, approves major policy submissions, and guides staff.

Chair

Paula Conboy



Paula Conboy was the full-time state/territory member and Chair of the AER Board for a five-year term from 1 October 2014. On 8 February 2019, Paula announced she would not be seeking a further term as AER Chair, nor as a member of the Board. Paula's term ended on 30 September 2019.

Paula came to the AER with over 20 years experience in public utility regulation in Australia and Canada. She held roles at the Industry Commission, Sydney Water Corporation and Ontario electricity distribution utility PowerStream Inc. She was also a full-time member of the Ontario Energy Board in Canada from March 2010. In that role she oversaw policy development and adjudicated applications for cost of service, performance-based regulation, mergers and acquisitions, and leave to construct electricity and gas networks. She was an active member of CAMPUS—Canada's energy and utility regulator—and chaired its 2013 annual conference. She is also a mentor with the International Confederation of Energy Regulators' Women in Energy initiative. Paula was a Member of the Energy Security Board.

Paula holds Bachelor of Science and Master of Science degrees in agricultural economics from the University of Guelph. She conducted her thesis research at La Trobe University.

Cristina Cifuentes



Cristina Cifuentes was appointed a Commissioner of the Australian Competition and Consumer Commission (ACCC) in May 2013 for a five-year term. She was reappointed for a further five-year term in 2018. She is also an Associate Member of the Australian Communications and Media Authority and a member of the OECD Network of Economic Regulators.

Cristina has a breadth of experience in both the public and private sectors across public policy, finance and utility regulation, including positions at the Reserve Bank of Australia, the New South Wales Treasury and the Australian Securities Commission. She served as the state part-time Member of the Australian Energy Regulator between 2010 and 2013. Cristina was a member of the New South Wales Independent Pricing and Regulatory Tribunal (IPART) between 1997 and 2006.

Cristina is chair of the ACCC's Communications Committee and the ACCC's Infrastructure Committee. She oversees the ACCC's regulatory role in relation to key infrastructure in areas such as telecommunications, wheat ports, rail and water. She is also the Commonwealth Member of the AER Board, which has responsibility for regulating the national electricity and gas markets.

Before becoming an ACCC Commissioner, Cristina held a number of directorships, including with the Hunter Water Corporation and the First State Super Trustee Corporation.

Cristina holds a first-class honours degree in law and a degree in economics.

Jim Cox



On 23 May 2017, Jim Cox was reappointed as a full-time state/territory member of the AER Board for a further three-year term. He was initially appointed in an acting capacity in September 2013. He was confirmed in the role for three years from 26 June 2014.

Jim has held positions with the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet, and the Social Welfare Policy Secretariat of the Department of Social Security. He was a principal economist at the Office of the Economic Planning Advisory Council between 1986 and 1989. Between 1989 and 1992, he was a consultant to the New South Wales Cabinet Office. Jim was Principal Adviser to the Government Pricing Tribunal of New South Wales from 1992 and was a member of IPART from January 1996 to September 2013. He was Acting Chairman of IPART in 2004, 2009–10 and 2011, and a visiting fellow at Monash University in 1985.

Jim assisted the New Zealand Government with social policy changes during the early part of 1991.

Jim has also written extensively on economic and social policy issues. This work has been published by, among others, the New Zealand Business Roundtable and the Centre for Independent Studies.

Jim was awarded the Public Service Medal in the Australia Day honours list in 2011 for outstanding public service to IPART.

Table 1: AER board meetings, 1 July 2018–30 June 2019

Description	Number of meetings
Meetings	43
Out-of-session meetings	4
Total meetings	47
Meetings with all AER board members	46

Our legislative framework

The AER is an independent entity under the Competition and Consumer Act 2010, consisting of three board members. Our functions are set out in the national energy legislation and rules, including the National Electricity Law (NEL), the National Gas Law (NGL) and the National Energy Retail Law (NERL). The legislation shares a common objective that guides our work: *to promote 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.*

Governance and management

The AER strives to incorporate good governance in our decision making and our business practice. Our organisational structure (Table 2) supports the AER Board in making timely, evidence-based and independent decisions.

Table 2: AER structure, 30 June 2019

Committee	Purpose
Senior Management Team	Supports the AER Board and CEO to deliver outcomes aligned with the strategic direction and priorities of the AER
Capabilities Committee	Makes decisions about and has oversight of the AER's people and organisational policies and practices, promotes policies and practices that maintain and drive effective people management and a good culture within the AER
Data and Systems Committee	Provides strategic direction for and monitoring of the AER's information and data resources and capabilities
Finance Committee	Oversees the AER's budget and financial management, the appropriateness of our financial reporting, corporate planning and performance reporting
Strategic Transformation Program Committee	Provides detailed input and guidance on the operation and substance of the AER's Strategic Transformation Program, discussing priorities, approaches and internal engagement
AER Compliance, Enforcement and Market Surveillance Committee	Promotes consistency and coordination across the AER's compliance and enforcement, and market performance responsibilities, ensures resources are directed to agreed priority areas
AER Network Governance Committee	Promotes consistency and coordination across the AER's network regulation responsibilities, ensures resources are directed to agreed priority areas
AER Policy Governance Committee	Coordinates the interaction between the AER's business-as-usual work and involvement in policy reform processes, to promote achievement of the AER's strategic objectives

Our CEO

The AER's Chief Executive Officer (CEO) is accountable to the AER Board, and is assisted by a senior management team covering technical and operating functions.

Our CEO, Michelle Groves, has over 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 worked for the Western Australian Government from 1988 to 1993.

AER structure

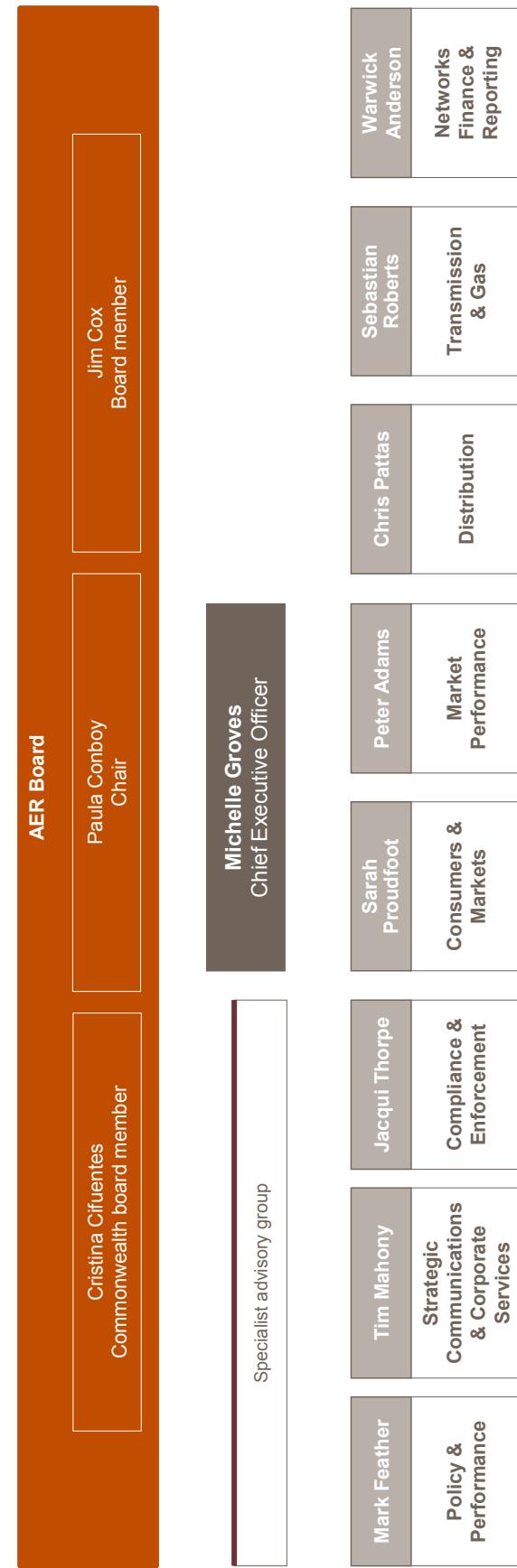
The AER Board and CEO are supported by staff working across eight branches:

- Networks Finance and Reporting
- Transmission and Gas
- Distribution
- Consumers and Markets
- Market Performance
- Compliance and Enforcement
- Policy and Performance
- Strategic Communications and Corporate Services.

In July 2018, the AER underwent a significant organisational restructure. Key changes included establishing the Policy and Performance, Strategic Communications and Corporate Services, and Compliance and Enforcement branches (figure 1).

The AER's budget is provided through the Australian Competition and Consumer Commission's (ACCC's) agency appropriation (part 5). Our CEO is responsible for the detailed management of our budget, workforce plan and other resources.

Figure 1: AER organisational structure, 30 June 2019



In 2018–19, the AER employed a total of 253 staff and our staffing average across the year was 205.5 (including our Board and CEO). This average was substantially higher than the average of 160.5 in the previous year, in line with the broader expansion of the AER’s resources and functions. Across the year, we also engaged 30 contractors and seconded three staff from other agencies to help deliver our work program, bringing our total headcount to 286. This is a 13 per cent increase in staffing, or 33 new people. Our engagement of contracted staff remained consistent with 2017–18.

The AER shares legal and economic advice resources with the ACCC. In addition, AER staff work closely with the ACCC on energy related matters, under both the energy laws and the *Competition and Consumer Act 2010*. While both agencies share a focus on consumer protection, the AER operates independently in pursuing compliance and enforcement matters under the national energy laws.

Planning and reporting framework

The AER sits within the Australian Government’s Treasury portfolio. The Hon. Josh Frydenberg MP is the Treasurer of the Commonwealth of Australia, and Minister responsible for the AER during the 2018–19 reporting period.

Portfolio budget statement and our corporate plan

The Treasury portfolio budget statement sets out our key program deliverables and performance indicators. From this statement, we develop an AER/ACCC organisation-wide corporate plan and an internal business plan that includes a risk assessment for our organisation and the energy industry. Individual performance plans for staff derive from the business plan.

Our relationship with the COAG Energy Council

The COAG Energy Council is a ministerial forum for the Australian Government, states and territories, and New Zealand to develop national energy reforms. We support the COAG Energy Council and its Standing Committee of Officials by providing clear advice on energy issues relevant to the AER. In particular, we draw on our expertise to engage in rule change processes and policy reviews that the council initiates. The AER Chair and CEO typically attend part of each council meeting to discuss energy market and network regulation issues.

Additionally, the AER Chair and staff regularly meet with Commonwealth, state and territory energy ministers. AER staff also communicate with energy departments, particularly on jurisdiction-specific and broader policy issues. More generally, we support parliamentary processes when our expertise may add value. Appendix 1 lists our submissions to such processes in 2018–19.

Our membership of the energy security board

The AER Chair is a member of the Energy Security Board, which was established to oversee the implementation of reforms arising from the Finkel review. The board, established in 2017, comprises an Independent Chair and Deputy Chair, the Chairs of the AER and Australian Energy Market Commission (AEMC), and the CEO of the Australian Energy Market Operator (AEMO). More generally, we work closely with the AEMC, AEMO, Energy Consumers Australia (ECA) and other energy market bodies on policy matters, rule changes and market issues.

Additionally, we assist the ACCC on energy related matters, including inquiries referred to it by the Australian Government. We also assist the ACCC on energy issues arising under the *Competition and Consumer Act 2010*, including consumer protection, mergers and authorisations.

Our statement of intent

To strengthen accountability and performance frameworks, the COAG Energy Council and the Australian Government developed [Statements of Expectations](#) for the AER in 2014. The AER published annual Statements of Intent in response to these statements. We published our Statement of Intent 2017–18 on 28 September 2017. On 27 July 2018 the Commonwealth Treasurer approved the 2017–18 Statement of Intent

remaining in operation until the new Statement of Expectations is issued. We will publish a new Statement of Intent once the new Statement of Expectations is issued.

In 2017 the *Independent review into the future security of the National Electricity Market—Blueprint for the future* report recommended the Australian Government and the COAG Energy Council issue a combined Statement of Expectations for the AER. The 2017–18 Statement of Intent can be found [on the AER website](#).

Our work on a new 2019–20 Statement of Intent is progressing well. This new statement will:

- set out how we intend to meet the expectations of the Australian Government and the COAG Energy Council over the 2019–20 financial year
- outline how our work program will contribute to progress against the COAG Energy Council's Strategic Energy Plan
- contain key deliverables and performance indicators, against which we will measure our performance.

Our annual reports

This AER annual report sets out progress against our work program and in meeting the expectations of the COAG Energy Council and the Australian Government. It reports on outcomes against performance indicators detailed in our Statement of Intent, as well as information on our staff and expenditure. This year's document reports on the 2017–18 work program for the 2018–19 period.

We also publish a combined annual report with the ACCC to meet our reporting requirements under the *Public Governance, Performance and Accountability Act 2013* and section 44AAJ of the *Competition and Consumer Act 2010*. That report includes financial statements covering the ACCC and AER, and covers performance against our program deliverables in the portfolio budget statement and corporate plan. Submitted to Treasury by the ACCC, the ACCC–AER Annual report 2018–19 was tabled on 16 October 2019.

Our stakeholder surveys

The AER commissions a major survey of its stakeholders every two years. To date, five stakeholder surveys have been undertaken. The surveys are conducted by an independent market research agency and comprise a quantitative survey and in-depth telephone interviews with senior people in consumer groups, businesses, peak bodies and government agencies. The surveys examine, among other things, satisfaction with how the AER performs its functions; the extent to which it has a clear direction and purpose, shows leadership, and is seen as trustworthy; and how well it engages with stakeholders. Our 2017–18 annual report included findings of our last stakeholder survey in 2018, and our 2019–20 annual report will include the results of our next stakeholder survey.

Our links with other energy bodies

We work productively with other energy market bodies, including the Energy Security Board, the AEMC, AEMO and the ECA. We share our expertise with these bodies, and consult with them on policy matters, rule change processes and administrative schemes.

Memoranda of understanding between the AER and other agencies set out expectations for information sharing, consultation and other communication, and coordination of activities. We have memoranda of understanding with: the AEMC, AEMO, the Clean Energy Regulator, the Independent Competition and Regulatory Commission, the Essential Services Commission (Victoria), the Federal Energy Regulatory Commission of the United States of America, Energy Safe Victoria, the Market Bodies Forum, the Australian Government Department of Human Services, jurisdictional regulators and ombudsman schemes.

We also engage with agencies such as the Australian Securities and Investments Commission (ASIC) on energy market issues, participate in working groups and facilitate staff secondments as opportunities arise.

Our staff assist the ACCC on energy related issues arising under the *Competition and Consumer Act 2010*, including consumer protection, mergers and authorisations. In 2018–19, our staff also continued to assist with two major inquiries directed by the Australian Government:

- an inquiry into the National Electricity Market, launched in August 2018 and expected to run until 2025, with six monthly reporting
- an inquiry into wholesale gas markets in eastern Australia, initiated in April 2017 and expected to run over three years, with six monthly reporting.

We also make submissions on and help with energy policy matters relating to our functions, particularly where we have specialist expertise and knowledge.

Australian Energy Market Commission

The AEMC assesses rule changes and conducts policy reviews. The AEMC and the AER Board meet regularly, as do senior executives. We communicate regularly with the AEMC on policy reviews and rule change proposals, and sometimes propose rule changes.

Australian Energy Market Operator

AEMO operates the energy markets and has network planning functions. Its board meets with the AER Board on occasion, and senior executives meet every second month. We have operational meetings with AEMO on wholesale energy market and retailer of last resort issues, network reviews and planning decisions.

Energy Consumers Australia

The ECA advocates on national energy market matters of strategic importance and material consequence for small energy consumers. It also provides grants for consumer advocacy or research. The ECA became a member of our Customer Consultative Group in 2015.

Ombudsman schemes

We work closely with state and territory energy ombudsman schemes, and draw on their data to help establish our compliance and enforcement priorities. We refer some matters to the schemes, which in turn refer matters to the AER.

State/territory energy regulators

We maintain strong relationships with jurisdictional regulators, and work closely with them to share learnings and strategies to address common challenges. In 2018–19, we engaged with state and territory regulators via a range of consultation processes to better inform our decision making. We also participate in the Utility Regulators Forum—a twice yearly meeting of decision makers and senior staff from Australian and New Zealand infrastructure regulators.

Other government organisations

We work closely with 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 staff exchanges. We also attend the World Forum on Energy Regulation and participate in its working groups.

The AER is a founding member of the Energy Intermarket Surveillance Group (EISG), which is the only international group coordinating and sharing skills across energy market surveillance and enforcement bodies. This not-for-profit organisation has 22 member agencies representing 17 electricity markets in North America, Latin America, south-east Asia, Australia and New Zealand.

In October 2018, we hosted the EISG meeting in Melbourne, where energy market monitoring agency representatives discussed electricity market monitoring, compliance and design issues and in April 2019, participated in a second meeting of the group in Austin Texas.

Part 2

PROGRAM 1

Energy networks

2018–19 highlights

- We made seven final electricity network revenue decisions and one gas access arrangement, and progressed a further four regulatory reviews of electricity networks.
- We approved six tariff structure statements for distribution businesses in NSW, ACT, Tasmania and the Northern Territory that encourage consumers to make better choices about how to use electricity and the kind of appliances they should invest in, such air conditioners or solar panels or batteries.
- We approved annual network tariff applications from 14 electricity distribution businesses and nine gas transmission and distribution businesses.
- We released the 2018 Rate of Return Instrument, which sets out our approach for estimating the return on debt and the return on equity, as well as the value of imputation credits.
- We investigated the difference between our regulatory allowance for tax and actual tax payments by regulated businesses and as a result made changes to our regulatory tax approach.
- Our review into profitability measures for electricity and gas network businesses continued. We finalised a return on assets (ROA) measure and published in September 2018 ROA outcomes and data relating to electricity business. We will also continue to consult on other profitability measures, including net profit after tax and return on equity.
- We continued trialling the New Reg process—an enhanced, more open approach to the way network businesses should bring in the consumer perspective in developing their regulatory proposals—with Victorian distribution network AusNet Services.
- We finalised improved cost–benefit guidance for network investment, particularly regarding replacement expenditure.
- We amended the service standards performance incentive scheme for distribution networks to reduce the duration of supply interruptions
- We made decisions on the operation of incentive schemes where businesses are rewarded or penalised to help ensure certain reliability and safety outcomes are met.
- We assessed expenditure by distribution businesses under the Demand Management Innovation Allowance (DMIA) that provides incentives for distributors to research and investigate innovative techniques for managing demand.
- A review of ElectraNet’s proposed interconnector from South Australia to New South Wales commenced. We are assessing whether ElectraNet’s preferred interconnection option identified through the South Australia Energy Transformation (SAET) Regulatory Investment Test for Transmission (RIT-T) satisfies the requirements of the RIT-T cost–benefit analysis.
- We determined ElectraNet’s preferred investment option to upgrade the electricity transmission network on the Eyre Peninsula satisfies the requirements of the RIT-T.
- We determined ElectraNet’s proposed investment to install four synchronous condensers to address a system strength shortfall in South Australia satisfied the requirements of an economic assessment equivalent to a RIT-T.
- We published our first transmission annual planning report (TAPR) guideline, to guide transmission network service providers in providing more practical and consistent information to generators, transmission customers and non-network service providers.

Our role

At a time when energy affordability is a key concern for Australian households, it is important that consumers are confident we examine carefully all aspects of distribution and network costs. We work with regulated networks and a wide range of stakeholders to make determinations that focus on the efficient use of consumers' money, and press network businesses to seek and reflect the views of their customers in their regulatory proposals. Generally, this determination process occurs every five years.

Our three network branches assess gas and electricity network revenue proposals and undertake broader regulatory oversight roles relating to energy networks.

- The Distribution Branch assesses expenditure and pricing/tariff proposals, monitors network business compliance with regulatory requirements and incentive schemes, and manages strategy and coordination of network revenue assessments.
- The Network Finance and Reporting Branch estimates required rates of return for network businesses, undertakes financial modelling, and manages performance and benchmarking data.
- The Transmission and Gas Branch assesses capital and operational expenditure requirements for transmission and gas network businesses.

This functional structure facilitates consistency in our approach to regulating network businesses and develops deep expertise and experience.

We also undertake broader oversight of regulated networks. This activity includes annual tariff approvals, assessing cost pass throughs, reviewing contingent projects and resolving connection and other disputes.

Network revenue decisions

In total, we regulate 30 energy networks, comprising:

- 21 electricity networks (seven transmission and 14 distribution)
- nine gas pipelines and networks (three transmission and six distribution).

Network businesses must submit periodically—usually every five years—regulatory proposals (for electricity networks) and access arrangement proposals (for gas pipelines) for review. We assess the proposals against legislative criteria while accounting for issues raised in consultation. Network businesses may apply to the Federal Court for judicial review of our decisions.

When determining revenues, we provide for the efficient costs of providing network services, including an adequate return on capital to network owners. Incentives are offered for efficient operation and investment decisions, with benefits shared between the business and consumers.

For electricity networks, we have 15 months to review a proposal and release a final decision. For gas pipelines and networks, we have 11 months to decide whether to approve an access arrangement proposal. This time can be extended by two months, with a maximum of 13 months to make a decision.

When assessing a regulatory proposal, we consider how effectively a network business has consulted with their community. We also seek stakeholder input in making our regulatory determinations. As part of our consultations for electricity networks, we publish framework and approach documents, issues papers and draft decisions. We also hold public forums and consult directly with network businesses, consumer representatives, and other key stakeholders. Once our final decisions are made, we publish factsheets explaining how we made our assessment, and how the decision will affect consumers.

Network decision activity

Table 3 outlines our network decisions for the year.

Table 3: AER's energy network revenue decisions completed in 2018–19

Network	Region	Period covered	Revenue proposed by business (\$ nominal)	Revenue allowed by AER (\$ nominal)	Difference between allowed and proposed revenues (%)	Allowed revenue by AER in previous determination (\$ nominal)
Electricity distribution						
TasNetworks	Tas	1 July 2019–30 June 2024	\$1392.7m	\$1276.4m	-8.3%	\$477.3m for 1 July 2017–30 June 2019
Power & Water Corporation	NT	1 July 2019–30 June 2024	\$927.9m	\$759.3m	-18.2%	N/A—first determination by AER
Evoenergy	ACT	1 July 2019–30 June 2024	\$951.8m	\$851.5m	-10.5%	\$815.7m for 1 July 2014–30 June 2019
Ausgrid	NSW	1 July 2019–30 June 2024	\$8630.4m	\$7703.3m	-10.7%	\$9126.3m for 1 July 2014–30 June 2019
Endeavour Energy	NSW	1 July 2019–30 June 2024	\$4649.2m	\$4201.2m	-9.6%	\$4143.4m for 1 July 2014–30 June 2019
Essential Energy	NSW	1 July 2019–30 June 2024	\$5544.7m	\$5079.3m	-8.4%	\$5102.6m for 1 July 2014–30 June 2019
Electricity transmission						
TasNetworks	Tas	1 July 2019–30 June 2024	\$799.6m	\$736.1m	-7.9%	\$880.8m for 1 July 2014–30 June 2019

Regulatory reviews in progress

In addition to the eight final determinations, we progressed revenue determinations for another four regulatory reviews of electricity networks in 2018–19.

Innovations in network regulation

In 2018–19, we rolled out innovations to enhance network regulation. The primary focus has been on improving transparency and accountability, as well as formalising and strengthening the voice of consumers in regulatory decision making.

First Rate of Return Instrument released

We increased our own transparency by releasing the first Rate of Return Instrument (RRI) in December 2018. The instrument sets out how we will determine the regulated rate of return on capital from our revenue determinations, to provide greater certainty for all stakeholders.

In setting the rate of return, we balance the need for efficient and stable investment to build and maintain Australia's future energy networks against ensuring consumers pay no more than necessary for safe and reliable energy. Because consumers pay for the network through their electricity bills, the rate of return must be high enough to attract investment in these long-term regulated assets, but not so high that it attracts

overinvestment. The Rate of Return Instrument is a critical tool that promotes efficient investment in energy network services that is ultimately in the long-term interests of consumers.

The first round of regulatory determinations under the RRI were completed in April 2019. Under new legislation developed by the Council of Australian Governments (COAG) Energy Council, the Rate of Return Instrument binds regulatory revenue decisions for the next four years. It is expected to reduce consumer bills by around \$30–40 a year on average, relative to the approach set out in the 2013 Rate of Return Guideline.

Comprehensive consumer engagement

The 2018 RRI was the result of our most comprehensive consultation process ever, involving consumers, investors and businesses, via multiple rounds of stakeholder submissions and public forums. Transparency underpins our approach to consumer engagement. We are engaging with consumers through the pioneering New Reg consultation process, the use of other consumer engagement approaches, and greater involvement of our Consumer Challenge Panel in network revenue determination processes.

For the RRI, we employed several new consultation elements so we could understand differing stakeholder perspectives. For example, we held concurrent expert evidence sessions to provide advice on key issues, and we invited an independent panel of leading figures in the field to review our decision.

Reforms to Australia's gas industry pipeline regulation

On 3 July 2018, the Australian Energy Market Commission (AEMC) released its final report on the *Review of the scope of economic regulation applied to covered pipelines* (the Parts 8–12 review) and associated rule changes. The first comprehensive review of the regulatory framework for gas pipelines since 1997, it introduced new requirements for the AER to produce financial reporting guidelines for light regulation pipelines, and financial models (post-tax revenue model and roll forward model) for access arrangement decisions. Both elements are well progressed.

Capacity trading reforms developed through the COAG Energy Council Gas Market Reform Group started operating in early 2019. These reforms are designed to foster the development of more liquid secondary gas transportation capacity markets. The AER is now responsible for monitoring and enforcing compliance with new market conduct obligations in the Gas Law and the Gas Rules. We are also responsible for granting transportation facility exemptions to the reforms, overseeing the classification of transitional firm services and publishing record keeping guidelines relating to nominations and scheduling.

To ensure the reforms are delivering greater access to gas reserves, we will review compliance with the rules for standard gas transportation contracts by early 2020 and report on participation and volume of trade in the markets to inform further policy thinking.

These activities are in addition to our ongoing work helping COAG to develop a full regulation impact statement (RIS) to revise the tests used to apply gas pipeline regulation (for example, the coverage test), examine the number and forms of regulation (full regulation, light regulation and part 23), and examine the governance arrangements for pipeline regulation. Consultation on this reform is designed to identify and evaluate options to deliver a more efficient, effective and well-integrated regulatory framework for gas pipelines. Well underway, that consultation will continue in 2019–20.

CASE STUDY: New Reg

New Reg is a ground-breaking customer-focused process developed collaboratively by the AER, Energy Networks Australia (ENA) and Energy Consumers Australia (ECA) to improve electricity sector consumer engagement and to identify opportunities for regulatory innovation. The vision is that energy consumers' priorities should drive the development of network business' proposals and the regulatory outcomes that ultimately determine how much consumers pay for network services, as well as the services they receive.

Significantly, this process means businesses must create a Customer Forum to negotiate aspects of their regulatory proposals before lodging them with the AER. The forum does not represent the perspectives of specific customers. Instead, it conducts research and customer engagement to ensure it effectively understands (and can negotiate based on) the perspectives of all the network businesses' customers. Forum members must have relevant skills and experience, to ensure the forum functions as an effective and robust counterparty to the network business.

The first trial of the New Reg process was launched in 2018 by AusNet Services (AusNet), a Victorian electricity distributor. The results of this trial will inform discussions about future changes to the regulatory framework. Given its significance, the trial is being monitored in real time by an independent consultant, while another consultant reviews this material to provide insights on the trial. The latter consultant will provide a final report at the end of the trial.

AusNet created a Customer Forum from five independent parties recruited to cover relevant skillsets. The forum has worked with AusNet to implement reforms across the business to improve customer service. These reforms included addressing 'pain points' associated with complaints handling, solar connections and new connections, substantially improving customer experience.

As a result of the New Reg process, AusNet has committed to reducing the time that it takes to assess and respond to claims for compensation for damage caused by voltage surges in its network. It will partner with contractors that can assist customers on-site with emergency repairs and provide a report to support customers' compensation claims for electrical appliances damaged by voltage surges. Additionally, AusNet has committed to publishing an annual customer interactions report, tracking the progress of the customer service improvement initiatives negotiated with the forum. Further initiatives may also be included in future iterations of this report.

As a result of negotiations between the forum and AusNet, the AER may develop an entirely new incentive scheme targeted at improving customer service. The forum and AusNet proposed we develop such a scheme as part of their negotiations on customer experience. We published an issues paper on the proposed scheme and received 18 submissions from customer groups, networks, retailers and other interested parties. We will continue consultation on the scheme in 2019–20.

Ongoing management of network revenue decisions

The full revenue determination process, which typically occurs every five years, is the most important period of the regulatory cycle. However, revenue decisions require ongoing management through annual tariff reviews, cost pass through assessments, and performance and benchmark reporting. We also need to manage incentive schemes and deal with disputes and complaints. Additionally, we undertake other functions for certain jurisdictions under state and territory legislation.

Annual tariff assessments and tariff structure statements

We conduct annual reviews of tariffs for electricity distribution and gas pipeline services to ensure they do not breach revenue or pricing limits, and they reflect underlying costs. In 2018–19, we approved network tariff applications from 14 electricity distribution businesses and nine gas transmission and distribution businesses. These tariffs will apply from 1 July 2018 to 30 June 2019, except in Victoria, where tariffs covered the 2018 calendar year.

Cost pass throughs

Network businesses can apply to pass through costs to customers, or hand back funds, arising from events that were not anticipated when their regulatory decisions were made and that are outside their direct control. Before approving any applications, we consider the efficiency of the businesses' expenditure and actions to mitigate these events and associated costs.

In 2018–19, we approved cost pass through applications for:

- AusNet Services to pay an annual easement land tax to the Victorian Government
- Evoenergy to manage specific vegetation within the ACT and inspect electrical infrastructure outside of its network boundary
- Evoenergy to comply with Power of Choice reforms to the National Electricity Rules
- Evoenergy to comply with the AER's electricity distribution ring-fencing guideline.

We also granted an extension to ElectraNet until 31 December 2019, to submit a cost pass through application for an inertia shortfall.

Incentive schemes

We operate incentive schemes for network businesses to improve their performance. We also administer the schemes and monitor compliance.

Electricity transmission incentives

Our Service Target Performance Incentive Scheme (STPIS) for electricity transmission networks encourages network businesses to maintain or improve service performance that will benefit the wholesale market operations, as well as improve supply reliability. The scheme also promotes network development that supports efficient wholesale electricity prices.

Electricity distribution incentives

Our STPIS for electricity distribution networks encourages network businesses to maintain or improve performance to benefit end users. It aims to ensure efficiencies are not achieved at the expense of service performance. We review businesses' performance against the scheme annually. Under the scheme, we may provide financial bonuses (or impose penalties) of up to 5 per cent of revenue for network businesses that meet (or fail to meet) performance targets.

Following a review of this scheme, we modified the incentive weighting between the frequency and duration of supply interruptions to provide further incentive for distributors to improve supply outage restoration time. The new scheme took effect from 14 November 2018.

We published an improved Demand Management Incentive Scheme (DMIS) in December 2017 to encourage distribution businesses to find lower-cost solutions to investing in network solutions. The incentive scheme achieves this by encouraging distribution businesses to undertake efficient expenditure on non-network options relating to demand management. To enable greater uptake of the new DMIS, we requested the Australian Energy Market Commission (AEMC) to approve amendments to the National Electricity Rules (NER) to allow early application of the new DMIS. These amendments were made in July 2018. We have approved the applications of five distributors for early access to the new DMIS for this reporting period.

We also annually assess expenditure by distribution businesses under the Demand Management Innovation Allowance (DMIA). The DMIA provides fixed allowance for distributors to research and investigate innovative techniques for managing demand. It also aims to enhance industry knowledge about practical demand management projects and programs, by publishing annual project summary and expenditure reports.

In the latest reporting year—the 2018 calendar year for Victoria, and the 2017–18 financial year for other networks—businesses claimed around \$6.1 million in demand management allowances.

Capital Expenditure Sharing Scheme

The Capital Expenditure Sharing Scheme (CESS) provides financial rewards for network service providers whose capital expenditure becomes more efficient, and financial penalties for those that become less efficient. Consumers benefit from improved efficiency through lower regulated prices.

The CESS approximates efficiency gains and efficiency losses by calculating the difference between forecast and actual capital expenditure. It shares these gains or losses between service providers and consumers.

Efficiency Benefit Sharing Scheme

The Efficiency Benefit Sharing Scheme (EBSS) aims to provide a continuous incentive for network service providers to pursue efficiency improvements in operating expenditure, and to share efficiency gains between network service providers and network users. It is intrinsically linked to our forecasting approach for operating expenditure.

If a network service provider has operated under an effective incentive framework, and sought to maximise its profits, the actual operating expenditure incurred in a base year should be a good indicator of the efficient operating expenditure required. However, we must test this assumption, and if we determine a network service provider's revealed costs are not efficient, then we will adjust them to remove inefficient costs. We then add additional operating expenditure not reflected in the base year ('step changes') and trend it forward to reflect forecast changes in input costs, productivity and output growth.

Network Planning and expansion

We promote efficient investment in energy networks in several ways. Part of the revenue determination process involves forecasting a network's total efficient investment requirements. Additionally, network businesses must apply a Regulatory Investment Test (RIT) to individual projects to test their efficiency. Specifically, network businesses must evaluate a proposed investment against credible alternatives (including non-network options) on a level playing field.

Separate tests apply for transmission (RIT-T) and distribution (RIT-D) networks. In each, a proposed investment must pass a cost–benefit analysis or provide the least cost solution to meet network reliability standards. The business must identify the purpose of a proposed investment and show it publicly consulted when evaluating alternatives. We monitor businesses' compliance with the tests and, on request from a business, may determine whether an assessment satisfies the test. We also resolve disputes about how network businesses apply the tests.

In February 2018, we published an issues paper as part of our review of the application guidelines for the RITs, accounting for the recent policy and regulatory changes, such as the inaugural Integrated System Plan. We released a draft guideline in July 2018, following a public forum and submissions from stakeholders. We published our final guideline in December 2018.

Non-scheme pipelines reforms

Information disclosure

The National Gas Rules require pipeline operators to publish the information that shippers need to make an informed decision about whether to seek access to a pipeline service and to assess the reasonableness of an offer from the pipeline operator. The publication and exchange of this information are intended to facilitate timely and effective commercial negotiations relating to access to non-scheme pipelines.

We worked with the Gas Market Reform Group to consult on and publish three guidelines to help non-scheme pipelines comply with the financial information and weighted average price information requirements:

- Non-scheme Pipeline Financial Reporting Guideline—December 2017
- Non-scheme Pipeline Financial Reporting Guideline—Templates

- Non-scheme Pipeline Financial Reporting Guideline—Explanatory statement.

Non-financial information requirements came into effect in January 2018, and all non-scheme pipelines began reporting financial and weighted average prices from the end of October 2018. Full disclosure was required by January 2019.

Exemptions

A non-scheme pipeline owner/operator may apply for an exemption from elements of the Information Disclosure and Arbitration Framework, if the pipeline satisfies the relevant exemption criteria set out in the National Gas Rules. Our process for granting an exemption is time limited, and we publish and maintain a public register for non-scheme pipeline exemptions on our website. We approved 13 non-scheme pipeline exemptions from 1 July 2018 to 30 June 2019.

Performance reporting on network businesses

We use Regulatory Information Notices (RINs) to collect performance information from regulated network businesses. To support transparency and ensure stakeholders can access information affecting their interests, we publish non-confidential information.

In 2018–19, we published data on the operational and financial performance of electricity transmission and distribution networks we regulate for the period 2006 to 2017. The consolidated reports cover data on revenues, asset bases, capital and operational expenditure, energy delivered, service outcomes and other network descriptors. These reports will be updated annually.

We released our annual benchmarking reports for electricity network businesses in November 2018, reporting on the businesses' relative efficiency over 2006–17.

CASE STUDY: Network performance reports

To assess network performance, the AER has gathered data for key performance measures relating to revenue, asset base, expenditures, reliability, maximum demand, energy delivered and circuit length from regulated networks since 2006. This data was made publicly available for the first time in 2018–19.

Where applicable, both forecast and actual data is provided for measures presented annually for the National Electricity Market in total, as well as for individual businesses. Actual data has been sourced from individual annual Regulatory Information Notice (RIN) responses from the network businesses, including economic benchmarking and category analysis RINs or historical data provided at the time of regulatory determinations. Forecast data has been sourced from the final regulatory determinations and associated models that we publish.

By bringing together and publishing the key metrics from a range of sources, the reports make it easier for stakeholders to evaluate performance. Stakeholders no longer need to review and manually compile the data from individual RINs to evaluate the measures. They can use the reports to assess market-wide trends across the National Electricity Market, and compare the performance of network businesses and the individual performance of a business over time.

We will update these reports annually and are likely to add further measures.

Refinement of regulatory tools

We continued our review into profitability measures for electricity and gas network businesses. In September 2018 we published Return on Asset (ROA) ratios (and supporting data) for the electricity network businesses we regulate. Since publication of this initial information, we have begun to report return on assets ratios as part of our annual performance reporting for these businesses. We will also continue to consult on other profitability measures as part of our ongoing review, including net profit after tax and return on equity. We intend to publish our final position paper on our review into profitability measures in December 2019.

In December 2018, we finalised the review of our approach to estimating the cost of corporate income tax for regulated electricity and gas networks. The final report presented analysis of the current tax management practices of the regulated energy networks, and our findings on changes to the regulatory tax approach. We implemented the changes to our regulatory tax approach in recent determinations, by updating the regulatory model used to forecast revenue requirements (post-tax revenue model). We have started updating the remaining regulatory model used for rolling forward the asset base (roll forward model).

We have continued our review of alternative approaches to assessing ICT expenditure by regulated businesses. This work reflects the increasing importance of ICT expenditure to manage energy networks and pipelines. We sought feedback from regulated businesses and other stakeholders, which will inform how we implement new information requirements and assessment tools.

Dispute resolution

Access and connection disputes

A customer who is dissatisfied with a connection offer from a distribution network business may request a review by the AER. In 2018–19 we received requests relating to 17 electricity connection disputes, of which 14 were resolved. Two of these 14 cases resulted in reduced charges. We found distributors' offers to the other 12 cases were reasonable.

One complex case and two other cases received at the end of the reporting period are under investigation.

New non-scheme gas pipeline provisions

In 2018–19, we acted as scheme administrator for the Tasmanian Gas Pipeline arbitration. After the arbitration concluded, we published information about the arbitration on our website (as required by the National Gas Rules).

Public lighting dispute

Through the year, we continued working on a determination to resolve the dispute between public lighting customers and South Australia Power Networks (SAPN). South Australian municipal councils and the South Australian Department of Planning, Transport and Infrastructure—acting as public lighting customers—requested we resolve a dispute with SAPN about alleged overcharging for public lighting services between 2010 and 2015.

In May 2018, the AER Board held an oral hearing on the matter with the parties to the dispute. In February 2019, the Board issued a confidential draft determination to the parties. The Board's final decision is pending.

South Australia Energy Transformation dispute

The South Australian Council of Social Service (SACOSS) lodged a dispute relating to the conclusion ElectraNet made in its project assessment conclusion report (PACR) for the South Australia Energy Transformation (SAET) RIT-T. SACOSS argued the SAET RIT-T PACR inadequately addressed the risk of unintended consequences (specifically, system security risks) associated with the assumed retirement of three South Australian gas plants.¹

In particular, the SAET RIT-T modelling included a protection scheme to detect and manage security risks associated with the loss of the Heywood interconnector or the proposed interconnector. SACOSS was concerned the PACR provided little detail about the scheme's ability to manage this risk. It also contended the market benefits outlined in the PACR may not be achievable if the protection scheme cannot be implemented as required.

Following a review, and further information from ElectraNet and the Australian Energy Market Operator (AEMO), we were satisfied that ElectraNet's application of the SAET RIT-T accorded with the National Electricity Rules. As a result, we did not require ElectraNet to amend its PACR for the SAET RIT-T. After

¹ The dispute was raised under clause 5.16.5 of the National Electricity Rules.

concluding this dispute, we started a broader review of the SAET RIT-T cost–benefit analysis under the National Electricity Rules.

CASE STUDY: Moving from conflict to consumer collaboration in regulatory decisions for New South Wales and ACT electricity distribution

On 30 April 2019, the AER published final decisions on the forecast revenues that the New South Wales and ACT electricity distribution companies are entitled to recover from consumers over the 2019–24 regulatory period. These revenues represent up to 40 per cent of the average total electricity bill faced by consumers in these jurisdictions.

Our decisions resulted in allowed revenues that were lower than those approved for the current 2014–19 regulatory period. They marked the end of processes that began in April 2015, including the end of limited merits and judicial review processes. They also reflected the momentum built up over the past five years, as the network businesses became more efficient and more customer focused, making them better able to provide the services that consumers want at the price that they value.

Since 2015, the New South Wales distribution networks and the ACT transmission and distribution business have responded to the lower recoverable revenues from the 2014–19 determination, and they began rationalising their business operations. As well as increasing efficiency to drive lower costs, the businesses also improved their approach to consumer engagement, with these improvements now flowing to their 2019–24 regulatory proposal development. For example, Ausgrid's 2019–24 proposal was informed by several 'deep dive' workshops and ongoing bilateral meetings with consumer groups on the key aspects of its proposal, aimed at addressing the consumer priority areas of affordability, reliability and sustainability.

This process demonstrates the clear value to a network service provider of a comprehensive and well implemented consumer engagement program—that is, successful passage through the regulatory determination process, with a high degree of support from stakeholders.

We are encouraged by the increasing number of network service providers that are devoting more resources to their consumer engagement programs, including greater emphasis on 'deep dive' workshops as part of their pre-lodgement engagement initiatives. Another example is the adoption of the NewReg model by Ausnet services—see case study above. We also welcome the commitment of several network service providers to maintaining an open and ongoing dialogue with stakeholders throughout the regulatory control period, as opposed to engaging intensively once every five years when a regulatory proposal is being considered. By keeping the conversation going, constructive discussions around key and contentious issues can be had well before a regulatory proposal is finalised and submitted, with further possible refinements aired as part of our subsequent public consultation.

Network exemptions

We can exempt small electrical networks (such as those in apartment buildings, shopping centres and industrial parks) from registering with AEMO. These networks, often referred to as 'embedded networks', are subject to a simplified regulation regime that we administer covering safety, metering, dispute resolution, network charging, and access to retail competition.

We maintain a register on our website of the holders of network exemptions. At 30 June 2019, we had registered approximately 4400 network exemptions (since 2012). The 2018–19 financial year marked the first time that network exemption holders supplying residential customers in South Australia and New South Wales became members of the respective jurisdictional energy ombudsman schemes (Energy and Water Ombudsman SA, and Energy and Water Ombudsman NSW) as a consequence of AER-imposed conditions of exemptions. Membership of the ombudsman schemes gives a business's customers access to the ombudsman's dispute resolution services.

Regulatory functions under state and territory legislation

Our roles under state and territory legislation include resolving customer disputes on network access and regulating the capital contributions of customers connecting to distribution networks under jurisdictional guidelines.

We also administer a Victorian Government fire factor scheme to give incentives for Victorian distribution networks to reduce the risk of fire starts from electricity infrastructure, and to reduce the risk of loss or damage caused by fire starts. The Victorian Government refined the scheme in December 2016, to target incentives towards fire ignitions that pose the greatest risk of harm via a new measure of Ignition Risk Units. Under the new scheme, each fire started by electricity infrastructure is weighted by a ‘location factor’ and a ‘fire risk (timing) factor’.

In June 2019, we assessed Victoria F-factor scheme results, after fire start reports from distributors for the 2017–18 reporting period were validated by Energy Safe Victoria. All distributors achieved better than their respective benchmark performance targets for this reporting period. As a result, the businesses received incentive rewards totaling \$1.47 million.

Changing demands on the network

As the National Electricity Market (NEM) evolves, new and emerging generation, storage and demand management technologies are being connected to the grid in a way not contemplated when the power system was designed. As an example, more renewable projects are looking to locate in remote parts of the network, increasing congestion. Increased variability in generation is making it more important to share these resources among regions.

The surge in renewable generation investment across the NEM creates challenges for managing the power system, because synchronous generation sources operate less often. Investment in electricity networks, such as new interconnectors, can benefit consumers, by providing diverse low cost renewable generation sources to help service demand, particularly as existing coal fired generators retire. We focus on ensuring any new investment in regulated transmission assets benefits energy consumers, and consumers pay no more than necessary for a safe, secure and reliable energy supply.

Similar challenges are also arising in the distribution network as the penetration of distributed energy resources, such as solar PVs and storage systems, continues at a high rate, as their costs fall. If not properly managed these distributed resources can give rise to voltage and other service quality issues for all customers. It is important that distributors manage these impacts efficiently so that the benefits of these technologies are achieved at minimum cost. Work has continued in this period on implementing more efficient pricing and other measures to help achieve these outcomes.

Eyre Peninsula

The Eyre Peninsula transmission network requires investment in the coming years due to the age and condition of the existing transmission line from Cultana to Port Lincoln, which was first established in 1967. Our current revenue determination for ElectraNet included an allowance for replacement works on sections of the existing 132 kV transmission line serving the Eyre Peninsula, and for ongoing network support generation to meet reliability obligations at Port Lincoln. However, we also recognised ElectraNet was exploring alternatives that may deliver greater net benefits for customers, including full line replacement options.

Through its Eyre Peninsula Electricity Supply Options RIT-T process, ElectraNet explored options to provide an efficient and reliable supply to the Eyre Peninsula into the future. ElectraNet’s preferred option involved a new double-circuit line from Cultana to Yadnarie (initially energised at 132 kV, with the option to be energised at 275 kV if required), and a new 132 kV double-circuit line from Yadnarie to Port Lincoln. The estimated capital cost of the proposed investment was approximately \$240 million.

On 11 April 2019, we published our determination that ElectraNet’s preferred option maximises net economic benefits, so satisfies the RIT-T. This determination means ElectraNet may apply to recover the costs of the Eyre Peninsula upgrade in network charges during the 2018–23 regulatory period. At that stage, we

will assess the costs of the proposed investment in greater detail, and determine the efficient capital and operating costs attributable to the project.

South Australian system strength

Transmission network service providers are required to maintain minimum levels of system strength, to maintain a stable and secure power system. AEMO declared a system strength shortfall in South Australia in October 2017, and subsequently identified installing synchronous condensers in South Australia as a priority project in its 2018 Integrated System Plan.

On 18 February 2019, we determined ElectraNet's proposed investment to install four high-inertia synchronous condensers in South Australia satisfied an economic evaluation equivalent to a RIT-T.² ElectraNet has now submitted a contingent project application (on 28 June 2019), requesting we amend its 2018–23 revenue determination to account for the costs of the project. We approved prudent and efficient expenditures required to deliver the synchronous condenser project on 9 August 2019.

Network tariff reform

Tariff reform aims to provide clearer signals to reward efficient use of existing network infrastructure and result in better investment decisions for the benefit of all consumers.

Reforms introducing cost reflective network tariffs are ultimately intended to encourage consumers to make better choices about how to use electricity and the kind of appliances they should invest in, such air conditioners or solar panels, electric vehicles or batteries.

This occurs through providing retailers with clear signals for the cost of consumption behaviour to incentivise them to manage exposure to these costs. For example peak charges help signal the cost of additional investment to manage network constraints if retailers are unable to shift demand from peak periods.

Incentivising retailers to face the cost of consumption behaviour and rewarding more efficient use of existing infrastructure should result in better investment decisions in the network (grid) and reduce network costs for all customers.

² We found ElectraNet's economic evaluation was sufficiently equivalent to a RIT-T, and the proposed investment satisfied that evaluation.

Part 2

PROGRAM 2

Consumers and markets

2018–19 highlights

- We released our first Customer Hardship Policy Guideline in March 2019, strengthening protections for customers experiencing hardship. The Guideline is the result of our rule change proposal to the Australian Energy Market Commission (AEMC) in March 2018, and the AEMC's final determination in November 2018. We have reviewed 50 retailers' revised hardship policies submitted in response to the new Guideline requirements.
- Revised Retail Pricing Information Guidelines took effect, implementing new formats for energy price fact sheets (now Basic Plan Information Documents and Detailed Plan Information Documents). These changes were informed by behavioural insights testing to ensure the greatest utility for customers looking to compare plans.
- We published our first annual compliance report on our Electricity Distribution Ring-fencing Guideline in March 2019. Ring-fencing aims to promote competition by preventing regulated distribution businesses from giving unfair advantages to affiliated businesses. The report highlights actions to enforce the guidelines and noted our intention to seek civil penalties to address non-compliance in the future.
- More than 37 000 offers were published on our Energy Made Easy website throughout the year, and we hosted over 2.2 million visits to the site (by 1.2 million visitors) and 6.9 million views.
- We managed two retailer of last resort (RoLR) events, issuing RoLR notices for COzero Energy Retail Pty Ltd (COzero) on 2 July 2018, and for Flow Systems Pty Ltd (Flow Systems) on 14 February 2019. No customers were affected in either instance.

Our role

Consumers are at the heart of everything we do. We consider consumer perspectives in all aspects of our regulatory decision making. Our energy price comparator website, Energy Made Easy (www.energymadeeasy.gov.au) helps consumers make informed choices about their energy supply and supports their active participation in the energy market.

We are also responsible for the market entry and RoLR frameworks, ensuring new energy sellers have the necessary financial, organisational and technical capacity, and protecting consumers and the market if a retailer fails. This is particularly important as the energy market evolves. We need to ensure new business models and technologies (and the participants that operate them) are working in consumers' interests.

As part of this work, we:

- maintain an energy price comparator website (Energy Made Easy) for residential and small business customers
- ensure the consumer perspective and experience inform energy retail regulation, and are considered in energy network business proposals and regulatory outcomes
- identify emerging business models and technologies, then consider how these impact consumers, the framework and the AER, and how we respond
- develop and implement responses to consumer issues in energy markets, including through legislative interventions and projects.
- produce information for consumers and consumer advocates, and participate in consumer forums, conferences and meetings to promote wider understanding of the energy framework
- oversee retail market entry and exit by: assessing applications from businesses looking to become energy retailers, to ensure they have the necessary financial, organisation and technical capacity; 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
- develop, administer and enforce ring-fencing guidelines that impose specific requirements on electricity distribution businesses, particularly when their affiliates operate in co-emptive markets
- review and approve hardship policies—subject to them meeting Customer Hardship Policy Guideline requirements—that retailers offer to customers facing financial hardship and seeking help to manage their bills.

Energy Made Easy

The Energy Made Easy website (www.energymadeeasy.gov.au) helps residential and small business energy consumers navigate electricity and gas retail markets to find a suitable energy offer. It includes a price comparator with details of all generally available offers in participating jurisdictions. Consumers can compare their electricity use with that of similar households, and learn about their rights and obligations, contracts and bills, and energy efficiency. It also provides general information on the energy market.

In 2018–19, the number of visits to Energy Made Easy increased by one million from the previous year (to over 2.2 million, up from over 1.2 million in 2017–18). More than 37 000 offers were published by retailers throughout the year. On 30 June 2019, there were around 10 000 offers available on Energy Made Easy—approximately 7800 electricity, 1300 gas and 900 dual fuel.

Energy Made Easy redevelopment project

We received \$8 million from the Australian Government to enhance Energy Made Easy, so it keeps helping Australians make informed energy choices. A dedicated team began the two-year project in July 2018. We are engaging with a broad range of stakeholders—including retailers, consumers, small business, government and industry representatives—to understand how we might best enhance the website.

We released the new-look Energy Made Easy in August 2018, which aims to simplify the process of searching and comparing offers. It also incorporates a broader range of products and services now available, and those likely to be developed in the future. Some of the improvements included:

- simpler language
- an easier way to switch between different price estimates (for example, with and without a discount, and monthly, quarterly and annual estimates)
- new functionality to see retailers' special offers that may have special conditions or requirements
- a new comparison layout that presents key plan features side by side.

Awareness campaign

In June 2019, we ran the 'Comparing energy plans? We make it easy' campaign to raise awareness of the website among consumers and small business gas and electricity customers in NERL states/territories. It included digital display and Google search advertising, organic social media, and promotion through key stakeholders. We focused on the 'easy' aspect of the website's brand, and its key features: the site compares energy plans from all retailers and that searching is easy; it is a free and independent website; and users don't need to provide their personal information to search on Energy Made Easy, so there is no marketing follow-up.

Retail pricing information

Revised Retail Pricing Information Guidelines took effect this year. These guidelines set out how retailers must provide information about their plan, to help consumers make informed decisions and more easily compare retail offers.

The new guidelines require retailers to submit plan data and information to Energy Made Easy and replace Energy Price Fact Sheets with two documents: the Basic Plan Information Document (BPID) and the Detailed Plan Information Document (DPID). The former contains key information on all standing offer plan contracts and market offer plan contracts, in a standard format, while the latter is a more detailed version. Both documents are generated by Energy Made Easy, promoting consistency and ease of comparison for customers.

BPIPs and DPIDs contain important plan information, including:

- the unit price for electricity and gas under the offer, and how the retailer may vary this price
- the daily supply charge that applies
- key fees that may be charged, such as account establishment fees, exit fees, late payment fees, disconnection and reconnection fees, payment processing fees etc.
- discounts and incentives available, such as loyalty incentives or discounts, one-off discounts, pay-on-time and other contingent discounts, dual fuel discounts, direct debit discounts etc.
- the length of the contract
- how to get the full terms and conditions of the contract
- the retailer's contact details
- a reference to Energy Made Easy.

By specifying the manner and form in which retailers present this offer information, the AER aims to create a 'standard' form of presenting information to consumers, giving them confidence in the accuracy and comparability of information.

Engaging with retail market stakeholders

We liaise with stakeholders interested in the NERL, including consumers and customer groups, energy businesses, ombudsman schemes, jurisdictional regulators and Energy Consumers Australia. Our engagement with consumers helps us to identify gaps in their understanding of energy markets, and barriers to their effective engagement. An important focus is our engagement with intermediaries that support disadvantaged and vulnerable energy consumers.

Customer Consultative Group

The Customer Consultative Group (CCG) advises the AER on our functions affecting energy consumers across participating jurisdictions. In particular, it advises and assists on issues that can impact small energy consumers (residential and business) as defined by the NERL jurisdiction.

In 2018–19, the CCG had 12 members, with membership from non-government organisations that focus on important issues such as how energy issues affect vulnerable consumers. The group advises on issues as they arise, including energy market and compliance matters. The members consult on issues of importance with their constituencies.

We held three CCG meetings in 2018–19 (July, November and March), discussing topics such as:

- work to develop a Default Market Offer (DMO) price and reference bill
- views on our draft Customer Hardship Policy Guideline
- our review of the values that different customers place on having a reliable electricity supply (the Value of Customer Reliability project)
- the introduction of a consumer data right to help consumers compare and switch between products and service
- the importance of including a consumer perspective in our decision making processes, funding to support consumer engagement by consumer groups, and our upcoming review of key consumer engagement mechanisms
- alternative formats for making submissions to consultations
- ways to help consumers who cannot or prefer not to engage online, and/or are of a cultural and linguistically diverse background.

Consumer Challenge Panel

The Consumer Challenge Panel (CCP) advises the AER on whether network businesses' proposals are in the long-term interests of consumers. In particular, it advises on how effectively a business is engaging with its customers, and how regulatory proposals reflect that engagement. Members are experienced and highly qualified individuals with consumer, regulatory or energy expertise, to help bring a consumer perspective to our decision making processes.

Current CCP members were appointed in September 2016 for a three-year term. They were invited to renew their membership for a further 12 months until September 2020, to allow for an independent review of the panel's role and functions in 2019–20.

In 2018–19, there were 11 CCP sub-panels. Of these, six panels provided independent advice on network determinations. The other five lateral sub-panels provided advice or submissions on: the regulatory tax approach review; measures of profitability that could be applied to regulated electricity and gas businesses; our rate of return guideline review; the national tariff structure statements review; and a submission into our review of the regulatory investment tests for transmission and distribution application guidelines.

Consumer policy

As part of our role in making all energy consumers better off, now and in the future, we participated in important policy reviews, reforms and consultations. These activities included making submissions to an early draft of the Energy Charter, the review of the coordination and funding of financial counselling services,

and the Queensland Government's review of the NERL. We also participated in a broad range of consumer-focused consultations and rule change processes led by the AEMC.

Other customer engagement

We attended nine events to speak with energy customers and help them find the right energy plan by demonstrating the Energy Made Easy website. These events included:

- Bring Your Bills Days in Campsie, Queanbeyan, Gunnedah, Bega and Ballina (New South Wales) (organised by the Energy and Water Ombudsman NSW)
- Adelaide home show (South Australia)
- Deal with Debt day (Logan, Queensland)
- Financial Counsellors Australian Conference (Melbourne, Victoria).

We also attended the Energy, Water and Telco Conference 2019 held by the South Australian Council of Social Services to hear directly about the issues facing energy customers.

CASE STUDY: Strengthening protections for vulnerable energy customers

The market problems for vulnerable customers uncovered during our compliance reviews and performance reporting included: a concerning gap between retailers' policies and their practical application of support; rising levels of customer debt; more people being disconnected; not enough early identification of vulnerable customers; and fewer people successfully completing hardship programs. We found, for example, the average electricity debt on joining hardship programs increased from \$1092 in 2016–17 to \$1146 in 2017–18 (AER 2018, Annual report on compliance and performance of the retail energy market 2017–18, Melbourne).

Protecting customers experiencing hardship is vital to ensuring markets deliver for customers. It is an AER priority to protect customers who are unable to safeguard their own interests, and to build consumer confidence in retail energy markets. Energy consumers have faced rising prices and experience both 'market-specific vulnerabilities' (such as information asymmetry) and individual or personal disadvantage (such as financial disadvantage).

To address this issue, we sought amendments to the National Energy Retail Rules. These amendments allowed us to create the new Customer Hardship Policy Guideline and to strengthen customer protections, so those customers requiring assistance to better manage their energy bills receive assistance.

This new binding guideline aims to strengthen these protections and help customers to access valuable information about their rights. It requires energy retailers to apply clear and consistent hardship protections to vulnerable customers, boost early identification and accessibility of information about consumer rights, and use new standardised actions statements when communicating with customers. We have the power to take enforcement action if retailers fail to meet their responsibilities to vulnerable customers under the guideline.

Extensive consultation informed the final guideline, with AER teams going beyond the statutory consultation requirements to deliver two issues paper consultations, a draft consultation and a stakeholder workshop between October 2018 and March 2019.

Retailers were required to comply with the new rules from April 2 2019. Existing retailers had to submit a replacement policy that complies with the guideline by June 2019, and we had two months from when retailers submitted their policies to approve them. Over two months, we assessed 50 revised hardship policies. While none of the initial drafts fully complied with the new requirements, we worked with retailers to deliver compliance.

Retailers then had to implement and publish their updated hardship policies within two months of receiving our approval. The last policy was approved on 22 July 2019. All policies should be published on retailers' websites by the end of September 2019.

Market entry and exit

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

Authorisations

A business must apply to us for an authorisation to sell energy, demonstrating it has appropriate capacity and suitability to perform as a retailer. We produce guidance for, and work closely with, potential new energy sellers during the application process to make sure they are aware of their obligations.

We publish all applications on our website and seek submissions from interested parties before deciding whether to grant an authorisation.

Retailer authorisations

This year we granted four electricity retailer authorisations and two gas retailer authorisations (appendix 3).

Exemptions

Some energy sellers may be exempt from having to obtain authorisation to sell electricity or gas. There are three types of exemptions:

- Deemed exemptions—for small-scale selling arrangements where the costs of registration would outweigh the benefits of increased regulation. A person covered by a deemed exemption need not apply to or register with us.
- Registrable exemptions—for defined classes of energy selling activities that need regulatory oversight, usually because of scale and market impact. These exemptions apply to a particular person or company for a specific site. They must be registered with us. At 30 June 2019, there were approximately 3100 published registrable class exemptions.
- Individual exemptions—for specific situations where the activity is not covered by a deemed or registrable exemption. In 2018–19, we granted 10 individual exemptions.

We develop and publish an exempt selling guideline, which explains: who requires exemptions; the processes for registering or applying for exemptions; the exemption types and classes, and their eligibility criteria and exemption conditions; our considerations on the NERL’s exemption policy principles; and exempt seller-related factors and customer-related factors, and how these influence our decisions.

The 2018–19 financial year marks the first time that network exemption holders supplying residential customers in South Australia and New South Wales became members of the respective jurisdictional energy ombudsman schemes (Energy and Water Ombudsman SA and Energy and Water Ombudsman NSW) as a consequence of AER-imposed conditions of exemptions. Membership of the ombudsman schemes gives a business’s customers access to the ombudsman’s dispute resolution services.

Retailer failure

We manage the RoLR scheme. If an energy retailer fails, its customers are transferred to another retailer so they continue to receive electricity and/or gas supply. Our functions include registering retailers to which consumers could be transferred; appointing RoLRs when an event occurs; and making cost recovery determinations.

We managed two RoLR events in 2018–19, issuing RoLR notices for COzero Energy Retail Pty Ltd on 2 July 2018, and for Flow Systems Pty Ltd on 14 February 2019. A RoLR notice represents the AER’s formal decision that a RoLR event has occurred. Typically, a RoLR notice provides for the appointment of one or more RoLRs to which a failed retailer’s customers are transferred. A RoLR notice may also provide for the revocation of a retailer’s authorisation.

No customers were affected in either RoLR event. COzero did not have any customers when we issued the RoLR notice and revoked COzero's retailer authorisation. Although we issued a RoLR notice for Flow Systems, we did not revoke Flow Systems' retailer authorisation. We were satisfied Flow Systems could continue to operate as an authorised retailer (under external administration) until an accelerated sales process was completed. Flow Systems was sold to Brookfield FS Holdings Pty Ltd in April 2019 and is trading as usual. We amended Flow Systems' RoLR notice on 3 May 2019 to reflect its changed financial circumstances.

We also reappointed two default RoLRs in 2018–19 for further three-year terms.

Ring-fencing

This year we published our first annual ring-fencing compliance report for electricity distribution. Ring-fencing aims to promote competition in the provision of electricity services, by providing a level playing field for third party providers operating in contestable markets.

Our Electricity Distribution Ring-fencing Guideline (currently under review) places clear obligations on distributors to prevent them using their monopoly position and regulated revenue to provide affiliates with unfair competitive advantages. In particular, ring-fencing aims to prevent distribution businesses from cross-subsidising or discriminating in favour of their own business affiliates.

Several breaches of the guideline were observed in 2018–19. They related to staff sharing, information disclosure and inadequate preparation by some businesses for the start of the guideline. These breaches have been rectified, with businesses agreeing to implement improved procedures and staff training to reduce the risk of future non-compliance.

We expect distributors to have appropriate and effective systems, processes and policies to comply with the guideline. For the next reporting year, we will focus on distributors that breached the guideline in 2018–19. We will also build our range of compliance tools, reinforcing key elements of the guideline and setting higher standards for assurance reports prepared by independent assessors.

Part 2

PROGRAM 3

Market performance

2018–19 highlights

- We released the first comprehensive long-term monitoring report on the performance of the wholesale electricity market in December 2018. The report contributes to our strategic objective of promoting efficient wholesale energy markets. It also allows us to share our expertise and insights, and supports reform of the energy market.
- We published 87 weekly electricity and gas monitoring reports, and six reports on high price electricity events.
- We monitored compliance with expanded data reporting obligations on the Natural Gas Services Bulletin Board (the Gas Bulletin Board), commencing September 2018. Beforehand, we published a Gas Bulletin Board guidance note, setting out our compliance expectations and approach to enforcement.
- We published our Day Ahead Auction Record Keeping Guideline in November 2018, in preparation for the start of capacity trading markets for gas transportation on 1 March 2019. Facility operators submit daily nomination and scheduling records as required under the guideline. We use these records to assess participant compliance with the market conduct rules (capacity trading) and to meet our responsibilities for monitoring for market manipulation in the Gas Supply Hub.
- We began publishing new quantitative metrics for gas markets on our website in August 2018. This publication was extended in early 2019 to include metrics on trading in the new Day Ahead Auction.
- We published our annual report on compliance and performance in the retail energy market in December 2018. For the first time, we also published an accompanying databook, improving the accessibility of information for stakeholders.
- Version 3 of our Retail Performance Reporting Procedures and Guidelines came into effect on 1 January 2019, requiring retailers to report additional data on market structure, smart meters and payment difficulties. Our first expanded quarterly report capturing this data was published in June 2019.

Our role

Our Market Performance Branch assists the agency to examine the performance of the national wholesale and retail electricity and gas markets. We identify market events and trends, reporting them to the AER Board and the public.

Responsibilities include:

- providing technical, market and trend analysis of energy markets and associated derivatives markets
- publishing analysis of market outcomes, including those required under our statutory reporting obligations
- preparing market performance reports on retail and wholesale markets—including the *State of the energy market report* and the effectiveness of wholesale competition—for internal and external audiences
- working with the Compliance and Enforcement Branch to detect potential instances of non-compliance, then undertake forensic analysis of market data needed for investigations
- leading an organisation-wide approach to data systems and analytical tools, ensuring information is captured, analysed and disseminated consistently and effectively across the AER, with a focus on users
- liaising with other organisations that research market oversight and regulatory policy
- undertaking predictive analysis and insights to monitor trends and issues, to inform compliance, performance and profitability work streams
- providing organisation-wide analytic capability and cross-organisation expert guidance.

We monitor:

- the National Electricity Market (NEM) in eastern and southern Australia, in which over 300 generators compete to dispatch electricity. The market covers Queensland, New South Wales, Victoria, South Australia, Tasmania and the ACT
- spot markets for gas—the Short Term Trading Market (STTM) operating in Adelaide, Sydney and Brisbane, the Victorian declared gas wholesale market, and gas supply hubs at Wallumbilla (Queensland) and Moomba (South Australia)
- retailers selling energy to residential, small business and large customers in Queensland, South Australia, the ACT, New South Wales and Tasmania.

We report on:

- wholesale market activity in the NEM each week, with more detailed analysis and reporting of extreme prices in energy and frequency control ancillary services markets
- the effectiveness of competition and impediments to the efficient operation of the NEM
- activity in the Victorian gas market and the STTM each week, with more detailed analysis and reporting of significant price events
- the performance of retail markets and energy affordability in states where we have regulatory responsibility for doing so.

More generally, we use the AER's monitoring expertise to engage with the Council of Australian Governments (COAG) Energy Council and other market bodies on wholesale electricity and gas market issues, including matters subject to policy review and rule change processes.

Following the COAG Energy Council decision to implement a Retailer Reliability Obligation (RRO), designed to help manage reliability in the NEM, we developed the series of guidelines setting out how the RRO would operate in practice. Guidelines were in place for the commencement of the RRO on 1 July 2019.

Market monitoring and reporting

We publish weekly market reports on activity in the NEM and gas spot markets, as well as more comprehensive reports on significant market events.

Comprehensive market monitoring and reporting

In line with the growing impact of wholesale energy prices on end consumers, in 2018–19 we assumed a broader responsibility to monitor whether wholesale markets are effectively competitive and operating efficiently in the long-term interests of consumers, and identify areas for further reform.

In December 2018, we released our first comprehensive long-term monitoring report on the performance of wholesale electricity market. Detailed analysis of the effectiveness of competition in the market found market dynamics are changing as the market transitions to a lower emissions generation mix. In recent years, average wholesale electricity prices have risen significantly due to the exit of low cost generation and increasing fuel costs. We did not find short-term behaviour contributed to recent price rises, despite the vulnerability of energy markets to the exercise of market power and significant changes in generation technology. Our role is to monitor this situation over the long term.

The report included our first levelised cost of energy analysis. The analysis highlighted that current wholesale spot prices would allow a range of generation technologies to recover their costs if they entered the market. The report also noted, while considerable investment in new wind generation and solar generation is occurring, market participants have identified a range of potential barriers to entry. These barriers include policy instability and unpredictability, interventions in the market, and difficulties in obtaining finance.

Analysis of market opportunities for alternative technologies

While the NEM continues to meet the reliability standard set by the Reliability Panel, supply and demand conditions are changing. While prices have risen to such a level that an investment signal for some lower cost technologies is emerging, a series of new challenges face the industry around the types and capabilities of that new investment to ensure the standards continue to be met over the longer term.

Weekly monitoring

Our Market Monitoring team continued to report weekly on market activity in the NEM and gas spot markets. This work provides a foundation to detect market irregularities and manipulation, as well as instances of participant non-compliance with the market rules.

In 2018–19, we published 87 weekly reports (35 for electricity and 52 for gas), focusing on demand and supply conditions, spot prices, reasons for variations between forecast and actual prices, and activity in energy derivatives markets. The number of electricity reports was lower than the previous year (49 in 2017–18) because resources were diverted into developing the Retailer Reliability Obligation guidelines.

While we aim to publish the reports within 12 business days of the end of the relevant week, we met that objective in only 37 per cent of weekly reports. This reflects a greater focus on longer term trends in the market to add value in explaining the energy market transition and less on detailed specific short term outcomes. We will adjust our measures over the coming year to more closely align with our objectives.

Gas market highlights

We continue to report on changes in gas production levels and flows across the east coast. Production around Roma in Queensland continued to rise, for both the domestic market and liquified natural gas (LNG) exports from Gladstone. This production remained well above the level of exports throughout 2018. It coincided with additional gas flowing into the southern regions via the Queensland to South Australia/New South Wales link, with sustained flows south commencing earlier and at higher levels than in previous years.

Conversely, Longford output declined in 2018 after record production levels throughout 2017, making Victoria more reliant on supply from the Iona Underground Gas Storage (UGS) facility. This increased reliance was especially evident during periods of high gas generation requirements, which became more frequent after

the Hazelwood coal fired generator closed in March 2017. The UGS facility can now replenish storage levels more rapidly following expansion works on the South West Pipeline that became operational in early 2017, and Australian Energy Market Operator (AEMO) revoking a long-term forecast threat to system security upon the project's completion.

Even though gas flows south increased during the past year, we reported several periods of price division between southern and northern markets.

Significant event reporting

We publish a report whenever the spot price for electricity exceeds \$5000 per megawatt hour (MWh), or if a frequency control ancillary service (FCAS) price exceeds \$5000 per MWh for a sustained period. We also report on significant price variations for gas.

In 2018–19, we published six reports on high price electricity events (compared with 14 such reports in 2017–18). Of the six reports, four covered high electricity prices in South Australia and Victoria:

- one in South Australia in July 2018
- three in Victoria and South Australia during January and March 2019.

The other two reports related to extreme prices for FCAS:

- one in South Australia in July 2018
- one in Queensland in August 2018.

Over the three high price events during the summer in Victoria and South Australia, there were 16 trading intervals (equivalent to eight hours) in Victoria and 15 in South Australia when spot prices exceeded the \$5000 per MWh reporting threshold.

These high spot prices were due to:

- high demand driven by high temperatures
- low supply of wind generation in Victoria and South Australia
- thermal plant outages in Victoria due to technical plant failures
- imports from Tasmania and New South Wales being at their limits.

The three events drove higher average prices in the electricity spot market. The March quarter of 2019 saw record wholesale electricity prices in Victoria and near record prices in South Australia. The average quarterly price was \$213 per MWh in Victoria and \$220 per MWh in South Australia, of which around \$90 per MWh was attributed to these three events.

While the market responded as expected during these extreme weather events, it highlights an emerging trend in Victoria. Since closure of the Hazelwood Power Station reduced supply in Victoria, demand no longer needs to be at record levels to trigger high prices or a lack of generation reserves.

In 2018–19, there were no significant price variations in gas markets.

Gas market liquidity

The Australian Energy Market Commission (AEMC) published its first review into liquidity in wholesale gas spot markets and pipeline capacity trading markets in August 2018. The review publishes quantitative and qualitative indicators based on a survey of market participants. The AEMC found most indicators reflect improved liquidity at the Wallumbilla gas supply over the past two years.

Complementing the AEMC review, we began publishing a range of new metrics for gas markets on our website in August 2018. With the introduction of the new pipeline capacity trading arrangements on 1 March 2019, we broadened our publications to include new metrics.

Gas market manipulation

The National Gas Rules (NGR) sets out the market conduct rules for the Gas Supply Hubs. The AER is responsible for monitoring trading activity to ensure participants comply with these rules. The rules include the requirement that market participants not engage in any conduct with the intent of distorting or manipulating prices in the Hub.

The new capacity trading markets included the introduction of a Day Ahead Auction of contracted but un-nominated transportation capacity. Division 3 of Part 25 of the NGR sets out market conduct and nomination rules for the Day Ahead Auction. These conduct rules require that participants not act fraudulently or engage in conduct with the intent of distorting or manipulating prices or the outcomes of the capacity auction. We commenced monitoring for this behaviour in March 2019, including enhanced monitoring of the Hub around the sale of transportation capacity connected to commodity sales at the Hub.

The AER must monitor day-ahead nominations, renominations and activity in the Day Ahead Auction to ensure compliance with the market conduct rules. To support this function, under Part 25 the AER may request facility operator nomination and scheduling records, which facility operators are required to maintain. The AER must also develop and publish guidelines detailing the records to be kept by facility operators in preparation for any such AER request.

On 29 November 2018 we published our Day Ahead Auction Record Keeping Guideline, in preparation for market start on 1 March 2019. The guideline requests that transportation facility operators submit their daily nomination and scheduling records each month. We now receive monthly data from eight facility operators, and we use this data to support our market manipulation monitoring role.

Retail performance reporting

Performance reporting on energy businesses enhances transparency and accountability, and provides incentives to improve performance. It also helps identify emerging issues that may require a compliance, enforcement or regulatory response.

Our sixth annual retail market performance report (released on 13 December 2018) covers states and territories where the National Energy Retail Law applies. It consolidated quarterly data for 2017–18 on customer service and complaints, energy bill debt, payment plans, hardship programs, energy concessions and disconnections. It also reported on energy affordability. This year, for the first time we published an accompanying databook covering all analysis in the annual report, improving the accessibility of information for stakeholders.

We also publish key market and retail performance data each quarter, on a range of indicators (including customer switching levels, customers experiencing payment difficulties, customer hardship, disconnections and reconnections, and complaints).

Version 3 of our Retail Performance Reporting Procedures and Guidelines came into effect on 1 January 2019. The revised guidelines require retailers to report additional data, including:

- further detail about the retail market and market structure (particularly about customer contracts)
- information on the roll out of smart meters as a result of the metering contestability regime that commenced on 1 December 2017
- further information about customers experiencing payment difficulties (including payment plans, hardship programs, and referrals to credit collection agencies).

We published our first expanded quarterly report and accompanying databook under the revised guidelines in June 2019 (for quarter 3 of 2018–19).

Energy market reforms

In 2018–19, we continued work to improve wholesale market efficiency.

Frequency control ancillary service rule change

The AEMC's frequency control frameworks review, completed in July 2018, recommended the AER undertake quarterly reporting on the performance of FCAS markets. In February 2019, we submitted a rule change to the AEMC giving effect to this recommendation. We see reporting on the FCAS markets as an integral part of our overall performance reporting framework. The AEMC made the final rule change in July 2019. The AER is required to report quarterly on each FCAS market, as well as provide an analysis of key trends and outcomes in each FCAS market, with the first report due in 2020.

Gas market reform

The Gas Bulletin Board (www.gasbb.com.au) was launched in 2008 to make the gas market more transparent by providing up-to-date information on gas production, pipelines and storage options in eastern Australia. But its usefulness was compromised by gaps in coverage and, at times, the provision of inaccurate data.

Significant reforms took effect in September 2018 to bring the Gas Bulletin Board closer to being a 'one stop shop' for the east coast gas system. The reforms remove most avenues for reporting exemptions and mandated the provision of more comprehensive detail for covered facilities. In April 2019, reporting obligations were also extended to facilities in the Northern Territory, recognising that the Northern Gas Pipeline now connects the territory with the eastern gas market.

Many gas facilities were covered for the first time in 2018, including gas storage facilities, which play an important role in assessing the future supply–demand balance. The Roma Underground Gas Storage near LNG gas fields in south east Queensland was among the facilities covered for the first time. Significantly, the reporting threshold for transmission pipelines, production facilities and storage facilities was lowered from 20 terajoules (TJ) per day to 10 TJ per day.

More comprehensive reporting was also mandated for production facilities. For the first time, market participants can access detailed information from production and compression facilities on their daily nominations, forecast nominations, intra-day changes to nominations, and capacity outlooks. This reporting brings added transparency to production outages, which informs market responses and helps maintain security of supply.

In the pipeline sector, the September 2018 Gas Bulletin Board reforms mean operators must now submit daily disaggregated receipt/delivery point data. Reporting obligations were also extended to regional pipelines and facilities attached to distribution pipelines. Further transparency measures accompanied the March 2019 commencement of pipeline capacity trading, under Part 24 of the NGR, with sellers of capacity now required to submit capacity transaction data to AEMO for publication on the Gas Bulletin Board.

To encourage compliance, the September 2018 Gas Bulletin Board reforms made reporting obligations subject to civil penalties for the first time. Consequently, the AER must now assess the quality and accuracy of the data submitted by market participants against a new 'information standard' to ensure the information presented on the Gas Bulletin Board has integrity. On 5 September 2018, we published a Gas Bulletin Board guidance note outlining our compliance expectations and enforcement approach.

Retailer Reliability Obligation

In December 2018, the COAG Energy Council agreed to National Electricity Law amendments to establish the Retailer Reliability Obligation (RRO). Subsequently, the National Electricity Rules were updated by the Energy Security Board (ESB) in May 2019 to set out the RRO in detail.

The updated rules required the AER to develop six guidelines, with four of these guidelines required in the interim in 2019 to support operation of the RRO from its commencement on 1 July 2019. Staff in the Market Performance Branch were redeployed to develop the RRO guidelines and contribute to the ESB's rules development process. From February to June 2019, we drafted and consulted on four interim guidelines; the Reliability Instrument Guidelines, the Market Liquidity Obligation Guideline, the Contracts and Firmness Guidelines, and the Forecasting Best Practice Guideline. We published these interim guidelines in 2019.

State of the energy market

We published our 11th State of the energy market report in December 2018, which covered developments in all jurisdictions in which we have regulatory responsibilities. Since 2007 we have reported on the state of the energy market in this report, which provides independent and accessible information to policy makers, industry and the community on Australia's wholesale electricity and gas markets, the transmission and distribution networks, and the rapidly evolving energy retail market.

The *State of the energy market* report targets a wide audience, including market participants, policy makers and the wider community. It draws on information from many 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.

This publication is valued by stakeholders as a ready source of unbiased and up-to-date information. Energy markets are complex, and media reporting, public commentary and political debate on energy issues can be conflicting and confusing. This report aims to give readers a working understanding of how the markets operate so they can make their own assessment of the issues.

Among the most debated issues in 2018 were why retail energy bills are higher than in the past, how renewable generation is changing the market, how Australia's gas industry is balancing the needs of foreign and domestic customers, how energy networks can be managed to meet changing customer expectations, and the impact of government intervention in the market.

Part 2

PROGRAM 4

Compliance and enforcement

2018–19 highlights

- Our enforcement action resulted in retailers, generators and distributors paying 19 infringement notices for allegedly failing to meet their obligations under the National Energy Retail Law (NERL), National Energy Retail Rules (NERR) and National Electricity Rules (NER). Of those, 11 alleged breaches related to supply disruptions to customers on life support equipment.
- We concluded our investigation into the actions of participants in the state-wide blackout that occurred in South Australia on 28 September 2016. In December 2018 we released findings about the actions taken before the event, in restoring the energy supply system and the suspension of the market.
- We oversaw the implementation of the new life support rules that commenced on 1 February 2019. The new rules strengthened the protections for energy consumers who rely on life support equipment. We focused on business readiness in the lead-up to the implementation of the new rules, and released industry guidance. We conducted detailed investigations and took enforcement action when businesses did not comply with the life support rules.
- We also published guidance materials reminding regulated businesses of their obligations relating to new metering rules that commenced in February 2019, and requirements under the Retail Pricing Information Guidelines. We commenced a compliance project relating to the new meter installation timeframes.
- We published five compliance audits under the NERL and NERR, and initiated a further three. Our 2018–19 audit program focused on areas that we identified as high risk, and where non-compliance would have a significant customer impact, particularly on vulnerable customers. Audit targets in 2018–19 included retailer's customer hardship policies, distributor obligations to register and protect life support customers, and the requirement to obtain and record customers' explicit informed consent to market retail contracts and transfers between retailers.
- We monitored gas participants' compliance with obligations relating to the Natural Gas Services Bulletin Board (the Gas Bulletin Board), demand forecasting, metering and gas pipeline provisions, and published guidance material.

Our role

The Compliance and Enforcement Branch develops and implements the AER's compliance and enforcement strategy, with a long-term goal of enhancing our ability to respond to emerging compliance issues through targeted risk-based approaches to compliance and enforcement.

Responsibilities include:

- developing and implementing proactive compliance strategies
- resolving disputes over connection charges, terms and conditions
- monitoring and enforcing regulated businesses' and market participants' compliance with the national energy legislation and rules governing wholesale energy markets—namely, the National Electricity Market (NEM), the Short Term Trading Market (STTM) for gas, the Gas Bulletin Board, gas supply hubs at Wallumbilla and Moomba, the Victorian declared gas market—and retail energy markets in Queensland, New South Wales, South Australia, the ACT and Tasmania
- undertaking similar roles under local instruments in some jurisdictions, as agreed by the Council of Australian Government (COAG) Energy Council.

Our approach to compliance and enforcement

With the creation of the Compliance and Enforcement Branch in September 2018, we commenced a review of our compliance and enforcement approach. This included how we monitor compliance, how we respond to potential breaches, and factors that we may consider when deciding whether to take enforcement action.

We use a wide range of information sources and monitoring tools to assess levels of compliance and identify potential breaches of the NERL. They include:

- stakeholder intelligence—receiving information from stakeholders (including consumers, businesses, energy ombudsman schemes, government agencies and consumer groups)
- information requests and compulsory notices—issuing energy businesses with information requests to inform our compliance and enforcement activity, and using statutory information gathering powers (if needed) to compel the provision of information and documents
- market surveillance—continuously monitoring electricity and gas wholesale markets, including bidding and rebidding, dispatch and prices, network constraints and outages, and forecasts of demand, production and capacity
- business reporting—developing guidelines under the NERL that impose an obligation on businesses to identify certain breaches and report them to us within a specified period, and encouraging businesses to self-report other breaches of obligations under the national energy laws
- audits—undertaking, or requiring businesses to undertake, compliance audits to assess how businesses manage compliance with obligations under the national energy laws
- targeted compliance reviews and projects—undertaking targeted reviews of businesses' compliance with a particular obligation or group of related obligations of the national energy laws, and undertaking strategic compliance projects to resolve identified compliance problems, inefficiencies or potential risks of harm.

Our approach to compliance focuses on preventing and addressing consumer harm, and ensuring the effective operation of the energy market and efficient operations of networks. It allows us to leverage enforcement outcomes across the sector, and achieve the strategic benefits of general deterrence.

We take effective, targeted and timely enforcement action when necessary. We can respond to a breach in the following ways:

- accepting an administrative resolution
- seeking a court enforceable undertaking

- issuing an infringement notice of up to \$4000 for an individual or \$20 000 for a body corporate if we have reason to believe a business has contravened a civil penalty provision. Paying an infringement notice penalty is not an admission of guilt, but finalises the matter
- commencing court action with a civil penalty of up to \$20 000 for an individual or \$100 000 for a body corporate for each breach.

We publish reports and guidance material on our compliance and enforcement activity and our expectations of market participants.

Compliance reporting

We publish the outcomes of our compliance and enforcement work in both retail and wholesale markets via our website and media releases. In December 2018, we published our *Annual report on compliance and performance of the retail energy market 2017–18*, which set out our compliance monitoring and enforcement activity in 2017–18. Also in December 2018, we published our *Black system event compliance report* into the pre-event, system restoration and market suspension aspects of South Australia’s 2016 state-wide blackout.

With the creation of the Compliance and Enforcement Branch in September 2018, we have been reviewing our approach to compliance reporting. Pending the outcome of the review, we published no quarterly or annual wholesale market compliance reports in 2018–19.

Outcomes and work

In 2018–19, our retail markets compliance work focused on protecting life support and hardship customers. Our wholesale electricity markets compliance work focused on significant market events and metering reforms. And our gas compliance work focused on reform areas, including Gas Bulletin Board requirements and the creation of pipeline capacity trading markets.

Enforcement action

In 2018–19, five retailers and electricity distribution businesses paid penalties in response to infringement notices issued for their alleged failure to meet obligations under the NERL and NERR. We issued 16 infringement notices under the NERL and NERR:

- 11 infringement notices (each with a penalty of \$20 000) to three electricity distribution businesses—Energex, TasNetworks, Evoenergy—for allegedly failing to provide customers who rely on life support equipment with the required four days’ notice of a distributor planned interruption to their energy supply
- four infringement notices to Alinta (totalling \$80 000) for allegedly failing to obtain explicit informed consent and allegedly failing to submit timely and accurate performance data
- one infringement notice to Energy Australia (totalling \$20 000) for allegedly failing to submit timely and accurate performance data.

Under the NER, we issued three infringement notices (totalling \$60 000) to Synergen Power for allegedly failing to follow energy dispatch instructions from the Australian Energy Market Operator (AEMO) during a system event on 1 December 2016. The parent company, ENGIE, also entered a court enforceable undertaking on the alleged contravention and other conduct of concern.

Guidance materials

We periodically issue guidance materials to industry, highlighting obligations under the energy legislation, and highlighting the importance of compliance processes and systems. Matters warranting guidance may become apparent through our review of significant market events, retailers’ compliance reporting under the NERL and NERR, and our engagement with ombudsman schemes.

In 2018–19, we published the following material:

- a Life Support Registration Guide to help retailers and distributors understand their responsibilities to customers relying on life support equipment. Changes to the NERR commenced on 1 February 2019 to strengthen the protections for customers who rely on life support equipment. These new rules are designed to allocate clear responsibilities between retailers and distributors, to ensure the life support registers are accurate and up-to-date.
- a compliance update setting out the responsibilities of retailers, distributors and metering coordinators under NERR and NER changes that commenced on 1 February 2019. Businesses must ensure they have systems and processes to manage these obligations for the timely rectification of metering installation malfunctions and the installation of new meters for customers.
- a guidance note on compliance with updates to our Retail Pricing Information Guidelines, which helps retailers present standing offer plans and market offer plans under the NERR.

National Gas Rules (NGR) changes relating to the Gas Bulletin Board commenced on 30 September 2018, enhancing the breadth and accuracy of information presented on the Gas Bulletin Board. Chapter 7 of the National Gas Law and Part 18 of the NGR set out participants' obligations regarding the Gas Bulletin Board. In September 2018, we published a guidance note setting out our compliance expectations and our approach to promoting and enforcing compliance with the new Gas Bulletin Board rules.

Amendments to AER (retail) Compliance Procedures and Guidelines

Our Compliance Procedures and Guidelines provide transparency on our approach to compliance with the NERL, NERR and regulations. They establish a self-reporting framework for businesses to report potential non-compliance, and a process to manage compliance audits.

On 18 September 2018, we released version 6 of the guidelines, which incorporates new rules introduced by the Australian Energy Market Commission (AEMC), refines the reporting framework, and provides new guidance material on compliance audits to better reflect our compliance approach and priorities. At the same time, we released an updated Practice Guide for Compliance Audits to supplement the guidelines' information on compliance audits.

Version 6.0 of the guidelines took effect on 1 April 2019.

Case study: New rules for life support compliance

An unexpected loss of power supply for customers who rely on life support equipment can be dangerous or even fatal. All retailers and distributors operating under the NERL and NERR must comply with obligations to protect customers who rely on energy-powered life support equipment.

In 2018–19, penalties for contraventions of the life support rules totalling \$220 000 were issued to three distributors via infringement notices. This total compares with \$180 000 in penalties issued via infringement notices last financial year.

Beyond these penalties, new rules commenced on 1 February 2019 in response to our proposal to strengthen the legal obligations on energy companies, and to give customers reliant on life support equipment greater peace of mind. The new rules compel both energy retailers and distributors to provide greater protections to life support customers from the time they inform the company of their need for the equipment, closing a gap in the NERR.

The new rules require the retailer or distributor contacted by the customer to:

- clearly notify customers of their rights and obligations under the life support rules
- follow an explicit process to obtain medical confirmation of a customer's eligibility to be on the life support register
- follow an explicit process if the retailer or distributor chooses to deregister a customer where medical confirmation is not provided.

We worked closely with the AEMC, AEMO, retailers and distributors on preparations for and implementation of the new rules. Our work included developing guidance for industry to help retailers and distributors understand their responsibilities to customers who rely on life support equipment under these new rules, and to help with the implementation of and transition to the new rules.

We also administer a binding reporting framework that requires retailers and distributors to report possible breaches of the NERL and NERR. Any breaches of the new life support obligations must be reported within two business days to ensure timely action to restore compliance and prevent future incidents.

Metering rule changes

On 1 February 2019, new rules in the NER and the NERR introduced new obligations on retailers, distributors and metering coordinators, which apply when small customers request new connections or meter upgrades, or replacements of faulty meters are required.

We worked extensively with industry to facilitate and encourage compliance with these new rules. In December 2018, we organised a presentation from the AEMC as part of our AER Industry Forum. In January 2019, we published a compliance update on our website to educate retailers, distributors and metering coordinators on the new rules. This update was accompanied by a letter to retailers, distributors and metering coordinators to clearly outline our expectations for compliance with the new rules.

Where we have observed issues with the new rules, including delays in metering installations requested by small customers, we have worked directly with energy ombudsman schemes to facilitate satisfactory outcomes for small customers. We have continued to engage with retailers and metering coordinators to address issues observed and have ongoing monitoring in place. We continue to work closely with AEMO, the AEMC, ombudsman schemes and government on metering issues.

Compliance audits

Our 2018–19 compliance audit program focused on assessing how retailers and distributors managed compliance with obligations under the NERL and NERR. Independent auditors conducted the audits in accordance with our Compliance Procedures and Guidelines, and targeted obligations where non-compliance has significant customer impact, particularly on those who are vulnerable or disadvantaged.

Version 6 of the guidelines (released in September 2018) also provided new guidance material on compliance audits to better reflect the AER's compliance approach and priorities. At the same time, we released an updated Practice Guide for Compliance Audits to supplement the guidelines' information on compliance audits.

In 2018–19, we completed five compliance audits under the NERL and NERR, and initiated a further three. Our 2018–19 audit program focused on areas that we identified as high risk, and where non-compliance would have a significant customer impact, particularly on vulnerable customers. Audits completed in 2018–19 included retailer's customer hardship policies and distributor obligations to register and protect life support customers.

Also in 2018–19, we started three additional audits (targeting the requirement to obtain and record customers' explicit informed consent to market retail contracts and transfers between retailers) that have now concluded, with results to be published by December 2019.

Case study: Reporting on South Australia's black system event

In 2018–19 we concluded our investigation into the actions of participants in the state-wide blackout in South Australia on 28 September 2016. This significant event was the first of its kind in the history of the NEM, and the scope and complexity of the AER's subsequent investigation have been unprecedented.

Given the magnitude of these events, the AER separated its investigation into four separate parts:

1. The Pre-event period, which focussed on AEMO and ElectraNet's actions in the lead up to the storm event, in particular whether they fulfilled their obligations under the Rules in relation to power system security.
2. The Event, in which we focussed on the compliance of generators with their performance standards during multiple power system faults experienced in the period immediately prior to the system going black in South Australia.
3. System Restoration, in which we examined the actions of certain participants in relation to the provision and use of System Restart Ancillary Services to restore the network following the black system conditions of 28 September 2016.
4. Market Suspension, in which we assessed compliance with how participants operated during the 13 day period in which the spot market in South Australia was suspended, including how AEMO managed power system security.

The Event component remained under investigation until August 2019 when we instituted proceedings against four wind farms generators. However, in December 2018, we released the findings of our investigation into the other three components: the pre-event period, the restoration of the energy supply system, and the suspension of the market. Our investigation of these components found that market participants showed a high level of compliance with their obligations, and that the system and market operator, AEMO, met all core power system management obligations. We also found, however, that AEMO breached five clauses of the NER that set out certain administrative requirements.

Importantly, the investigation enabled us to clarify areas for improvement and recommend changes to improve the overall effectiveness of the regulatory framework. Actions that we proposed included:

- implementing more rigorous weather monitoring processes
- standardising notifications for market participants during abnormal weather conditions
- more broadly reviewing the criteria under which weather events are classified
- improving AEMO operator training
- clarifying roles and responsibilities of the market operator and network providers regarding system restoration.

Some recommendations—such as those related to AEMO practices, systems and processes—have already been implemented, while others are in process. We are monitoring AEMO's implementation of our recommendations. Our report has been a key input into the policy review of the regulatory framework being conducted by the AEMC.

We prepared a rule change proposal to strengthen the regulatory framework for system restart ancillary services. And we commenced an industry-wide review of key obligations relating to the provision of information, and actions to cooperate with and assist AEMO on power system security.

Generator Performance Standards

Generator Performance Standards are the minimum technical capability for each generator to operate when connected to the power system. In 2018–19 we coordinated with AEMO and the AEMC on effective reporting of compliance with generator performance standards in 2018–19. We monitored non-compliance reports by generators to AEMO under the self-reporting regime of the NER, and the implementation programs by the generators to rectify the non-compliance. Where there are reported non-compliances, AEMO will set temporary operational arrangements to ensure power system security.

Part 2

PROGRAM 5

Policy and

corporate

reporting

2018–19 highlights

- We made 28 submissions to policy reviews and rule change processes where our expertise could bring a valuable perspective. The majority of these were to the Australian Energy Market Commission (AEMC).
- Our Board members and senior executives gave 26 speeches at Australian and international forums.
- The AER website received 2.9 million views.
- We published over 3200 documents, guidelines, reports and submissions in multiple formats for accessibility on our website, which were viewed 563 974 times.
- We distributed 650 communications notices (which our website subscribers receive via email) and published 37 media releases.
- Our web subscribers grew from 4597 in 2017–18 to 5084 in 2018–19. Subscribers received 750 updates on specific projects, in addition to general AER communications.
- Our social media platforms continued to grow, reaching 4536 LinkedIn followers and 461 Twitter followers.
- Our industry e-news bulletin *Energy Dispatch* moved from quarterly to monthly in February 2019. We published eight issues over the year, going out to 594 subscribers.
- We coordinated a large number of briefings throughout the year, including for multilateral meetings such as Council of Australian Governments (COAG) Energy Council, Senior Committee of Officials (SCO) and the Energy Security Board. We also provided briefings to government and other stakeholders, including on key AER releases and decisions.
- During the year we participated in two Senate Estimates, three COAG meetings and six SCO meetings.

Our role

Policy and Performance Branch

This branch works to make the AER more proactive in energy policy debate, through research, consultation, the development of robust, consistent and well-evidenced policy positions, and thought leadership. To do so, it coordinates strategic thinking across the AER and contributes expert technical advice and analytical skills to inform the AER's work.

Responsibilities include:

- leading the AER's work on the Default Market Offer
- leading the AER's work on the Value of Customer Reliability
- coordinating the AER's policy work across the organisation. In this role, the branch works with all other branches to respond to external consultations and reviews, and to proactively develop AER perspectives.
- driving the AER's ongoing organisational development to improve its ways of working. The branch's Corporate Performance team develops, monitors and implements these improvements, so our staff and the AER Board are well supported to achieve our planned outcomes.
- providing strategic and high quality technical and industry advice to all branches of the AER. Within the branch, specialist advisors in the Technical Advisory Group provide services to the AER Board, executive and staff. Primarily reflecting its industry expertise, the group provides this advice within the context of the national electricity and gas objectives. Its specialist services support the AER Board to make good decisions, and help develop our staff's knowledge and analysis.

Outside the AER, the branch works with officials of the COAG Energy Council, the Energy Security Board, market bodies, state-based regulators, Energy Consumers Australia (ECA) and energy ombudsman schemes on emerging issues and regulatory strategies. It also contributes to energy policy issues, particularly in areas where we have built strong expertise. In particular, we make submissions to energy policy reviews, and provide information to the bodies conducting those reviews (including the COAG Energy Council and the AEMC).

Strategic Communications and Corporate Services Branch

This branch is responsible for building community and stakeholder understanding of the AER's purpose, strengthening our reputation as an effective regulator and supporting our role as an informed contributor and insightful thought leader in the energy policy debate.

Responsibilities include:

- advising the Chair, Board and branches on communications and engagement strategies for the AER, its projects and decisions
- frontline media and social management, speech development, annual reports, staff communications and e-news channels
- corporate website administration and publishing
- providing executive office support to the Chair
- development and administration of Board and stakeholder briefings
- providing secretariat, recruitment, budgeting, and executive and administrative support.

Policy proposals

In December 2018, the Federal government approved the following additional budget for the AER (including additional budget for 2018–19):

- Default Market Offer: \$4.2 million and 18 average staffing level (ASL) per annum ongoing to set and oversee the implementation of a Default Electricity Price for households and business to implement recommendations made by the ACCC in its Retail Electricity Pricing Inquiry (REPI)
- Retailer Reliability Obligation: \$5.1 million and 20 ASL per annum ongoing to undertake functions required under the new reliability framework of the National Energy Guarantee.

Policy and reforms

As the independent regulator and market monitor, the AER is in a unique position to contribute to the development of energy policy and reforms and the Policy and Performance branch leads this work.

We actively engage in reform proposals, providing guidance and direction that will benefit household and business consumers, while ensuring the market remains stable, reliable and cost effective.

In line with our strategy to increase transparency to inform and empower decision making by industry, governments and consumers, we make as much information publicly available as possible. Plus, we actively engage with stakeholders in our own decision making.

We also take a proactive approach in communicating to our stakeholders and energy consumers about what our decisions mean for them.

International engagement

The AER participates in international forums to contribute our expertise and insight. We are a member of the Energy Intermarket Surveillance Group (the peak international group for coordination among energy market surveillance and enforcement bodies) and a participant in the Asia Pacific Energy Regulatory Forum. Last held in November 2018 in Tokyo, the forum brings together representatives from energy regulatory agencies and other organisations in the Asia Pacific region.

Submissions

We contribute to undertake policy reviews and rule change proposals where our expertise in network regulation, energy markets and consumer issues can add value. In 2018–19 we made 22 submissions to AEMC rule change processes (Appendix 1). We also made one submission to COAG, along with a submission on the Energy Charter, to the Independent Competition and Regulatory Commission, the Queensland Department of Natural Resources, Mines and Energy, on the review of the coordination and funding of financial counselling services across Australia, and the Northern Territory Utilities Commission. As well as making a submission, we brought forward a rule change proposal on the frequency control framework.

Submission topics included:

- [monitoring of and reporting on frequency control framework](#)
- [the introduction of an electricity short term forward market](#)
- [the AEMC's South Australian black system review](#)
- [the AEMC's investigation of intervention mechanisms and system strength in the National Electricity Market's \(NEM\)](#)
- [reforms to the Victorian declared wholesale gas market](#)
- [the Northern Territory Utilities Commission's ring-fencing code and guidelines review](#)
- [the AEMC's review into the coordination of generation and transmission investment](#)
- [the application period for contingent project revenue](#)

- the AEMC's [review of stand-alone power systems](#)
- the [Northern Territory's emergency gas supply arrangements](#)
- [market making arrangements in the NEM \(a consultation paper\)](#)
- [a review of the Australian Capital Territory's \(ACT\) consumer protection code](#)
- the [AEMC's electricity network economic regulatory framework review \(regulatory sandbox arrangements to support proof-of-concept trials\)](#)
- [the Energy Charter](#)
- [estimated meter reads](#) and [metering installation timeframes](#).
- [a register of distributed energy resources](#).

In recent years, retail energy prices have affected consumer confidence in the energy market. In its Retail Electricity Pricing Inquiry final report (July 2018), the ACCC found standing offers³—default flat rate contracts that were intended as a default protection for consumers who were not engaged in the market—were unjustifiably high and causing financial harm to consumers. As a result, the Australian Government asked the AER to develop a mechanism to set the maximum price for default market offers (consistent with the ACCC's recommendations) in areas where there is no other retail price regulation: South Australia, New South Wales and south east Queensland.

In effect from 1 July 2019, the mechanism—called the Default Market Offer (DMO)—limits the price that electricity retailers can charge small business and residential customers on standing offer contracts. The DMO also sets a reference bill amount, from which retailers are required to calculate all discounts. This reference is designed to help consumers compare electricity market offers and to remove the meaningless headline discounts that have been prevalent in the electricity retail market.

In November 2018, we started consultation on the method to set the maximum price. Following an extensive consultation process of papers, forums and submissions, we released the DMO final determination in April 2019. Our determination delivers the following annual reductions in the standing offer bill for residential customers:

- \$129 to \$181 in New South Wales (depending on distribution zone)
- \$118 in south east Queensland
- \$171 in South Australia.

It will also reduce annual prices for small business customers who are on standing offers, by approximately:

- \$579 to \$878 in New South Wales (depending on distribution zone)
- \$457 in south east Queensland
- \$896 in South Australia.

We took a 'top down' approach to setting the DMO. We used observed price data available in the market to establish a range for each distribution zone, then determined a DMO price within this range to best meet the policy objectives. These objectives include removing unjustifiably high standing offers whilst also maintaining customer engagement, competition, investment and innovation in the retail electricity market. We also considered forecast changes to input costs for 2019–20, including network, wholesale energy and environmental scheme costs.

³ A customer might be on a standing offer if they have never switched to a retailer's market offer; if they were placed on one when their market offer expired; if they have a poor or no credit history; or if they do not engage with the market for whatever reason.

Case study: Value of Customer Reliability (VCR) project

The Value of Customer Reliability (VCR) represents the value³⁴ usually in dollars per kilowatt hour³⁵ that customers place on a reliable supply of electricity from the grid. In 2018–19 the AEMC approved a COAG Energy Council Rule Change, giving the AER responsibility to develop and publish VCRs for the NEM and Northern Territory. The VCR links efficiency and reliability, playing a pivotal role in network planning and cost–benefit analysis for network investment tests. It also informs the design of market and network price caps and incentives, such as for network reliability.

Under the new rules, the AER is required to develop a method to calculate VCRs and to publish our first VCR estimates by 31 December 2019. We must then publish the estimates each year, and periodically (at least every five years) review and update the VCR method.

We commenced our VCR review in October 2018, publishing a consultation paper. We also established a VCR Consultative Committee, so we had direct access to a wide range of stakeholders. We have sought the committee's views on key issues throughout the VCR project.

In developing our VCR method, we built on the Australian Energy Market Operator's (AEMO) approach in its National Electricity Market (NEM) -wide estimation of VCR values in 2014. We found AEMO's method (comprised of survey techniques) suitable for estimating VCR values for outages of less than 12 hours duration. We refined it to improve the quality of survey responses that we receive. We then tested the changes in a pilot survey in May 2019, which led us to make minor changes to our main survey (to be implemented in September 2019). The pilot survey results also indicated we could use our proposed method to derive VCR values for residential and business customers. However, we are also considering other techniques (such as model based approaches) to measure VCRs for widespread and long duration outages of longer than 12 hours, which survey techniques do not capture well.

Part 3

Our performance

The following tables assess our performance against the target deliverables and performance indicators in our Work Program to the Council of Australian Governments (COAG) Energy Council and the Australian Government. The AER's Work Program 2017–18 established the indicators to assess our progress in meeting the Australian Government's expectation that we are a high performing regulator, based on measures set out in the Australian Government's *Regulator performance framework*.

The indicators cover the breadth of our work. Some are objectively quantifiable, while others are subjective. Some indicators measure delivery only (for example, whether we publish a report), while others measure perceptions of quality (for example, survey results).

For each indicator, we include a 'traffic light' assessment: a green light indicates we fully achieved the performance target, orange indicates part achievement, and red indicates non-achievement. When we did not meet a performance target, we explain why and we outline measures to improve our performance in some areas. We delivered on most of the performance targets, but resourcing constraints and competing priorities meant we completed some tasks outside the target deadlines.

We report separately on our performance against the Treasury portfolio budget statements in the combined ACCC–AER annual report, as required under section 44AAJ of the *Competition and Consumer Act 2010*.

1. Meeting the COAG Energy Council's expectations

On 27 July 2018 the Commonwealth Treasurer agreed that the AER's 2017-18 Statement of Intent should remain in operation until a new Statement of Intent is issued. For 2018-19 we have reported against the indicators used in 2017-18 that continue to be relevant. However, some indicators that relate to activities that were completed in 2017-18 have been removed.

Deliverable	2018–19 target	Outcome
Progress on work program and expenditure against budget		
Publish a detailed work program as part of our Statement of Intent	Publish the 2018–19 Statement by 30 June 2018	On 27 July 2018 the Commonwealth Treasurer approved the 2017–18 Statement of Intent remaining in operation until the new Statement of Expectations is issued. We will publish a new Statement of Intent once the new Statement of Expectations is issued.
In the ACCC–AER statutory annual report, report on our expenditure against the program budget allocated to the AER	Deliver the 2017–18 report to Treasury by 30 August 2018	The 2017–18 ACCC–AER annual report was provided to Treasury on 24 September 2018 after being granted an extension. It reported on the AER's expenditure against the allocated program budget.
Publish an AER Annual Report setting out progress against our work program, including compliance with statutory timelines	Publish the 2017–18 Report by December 2018	The 2017–18 AER Annual Report was published on 12 December 2018. The report contained information on our resource use, work program and performance.
Undertake our work program within budget as determined by the Australian Government budgetary process	Undertake our work program within budget.	We delivered our work program for 2018–19 within our allocated budget.
Publish any significant changes to our work program on AER website	Publish all changes within 14 days	We did not publish a specific work program for 2018–19, however our website was continually updated to reflect our work.
Report to the COAG Energy Council on our progress against our work program, including outcomes, issues and any variations	Provide updates as requested by the COAG Energy Council	We provided updates to the COAG Energy Council on our key work and strategic issues, including regular briefings on announcements and decisions, in response to the council's requirements.

Stakeholder engagement

Ensure the AER Board and senior executives communicate with stakeholders via speeches, forums and the media	Qualitative target	The AER Board, CEO and senior management team presented at 26 forums, conferences and other public events. Our liaison with media included interviews, briefings, responses to questions, and 37 media releases.	
Meet periodically with the Consumer Challenge Panel (CCP), jurisdictional groups of consumer representatives, and the Customer Consultative Group, in conducting our work program	Monthly meetings of CCP subpanels At least two meetings of jurisdictional groups during each regulatory reset Three Customer Consultative Group meetings	CCP member contracts were extended in 2018–19 for 12 months (until September 2020), to allow time for an independent review of the CCP as a consumer engagement mechanism. Three whole of CCP meetings were held in 2018–19 (November, March and May). The CCP also discussed issues by regular teleconference. The CCG met three times in 2018–19 (July, November and March).	
Undertake a broad stakeholder survey every two years that includes assessing the quality of our stakeholder engagement	Next survey in 2020	We conduct stakeholder surveys every two years, and are preparing for the next survey in 2020. We published the results of the last survey (2018) in our 2017–18 annual report.	
Publish the State of the energy market report, with accessible information on market activity and dynamics	Publish the 11th edition	We published the State of the energy market 2018 report on 17 December 2018.	
Publish a strategic statement communicating the AER's purpose, work and strategic objectives	Qualitative target	We published our Strategic Statement on 22 August 2017.	
Improving capabilities			
Strengthen our external engagement and communications capabilities	Qualitative target	Over the year we achieved growth in our website reach, with 2.9 million views (up from 2.7 million in 2017–18), and our social media reach, with an increase to 4536 LinkedIn followers. We increased the frequency of our industry e-news bulletin to monthly. We distributed 650 communications notices and published 37 media releases. Our web subscribers grew from 4597 in 2017–18 to 5084.	
Undertake a comprehensive review of corporate governance, structure, culture, strategic priorities and performance delivery to ensure we are the high performing, outcome focused, collaborative agency that we want to be	Implement and embed independent review findings following a tender process to identify a suitable candidate to the undertake review	The Nous review was completed in 2018, and we continue to work to implement and embed the recommended changes.	

Develop capability for continuous network performance monitoring	Qualitative target	In 2018–19 we established a networks performance reporting team to develop a networks performance reporting strategy and undertake reporting and monitoring of network performance outcomes. A performance reporting strategy was endorsed by the AER Board in October 2019.	
Expand our data analytics capabilities for assessing regulatory proposals and wholesale market dynamics	Qualitative target	We continue to use existing assessment techniques and data, with only incremental modifications made to improve data inputs and analytical tools.	

2. Achieving our work program

Deliverable	2018–19 target	Outcome
Work program 1: Energy Networks		
Complete all regulatory decisions on electricity networks and gas pipelines within statutory timeframes	Publish eight electricity determinations, within statutory timeframes	We published all electricity and gas determinations within statutory timeframes. 
Publish an annual benchmarking report and regulatory information notices data for electricity networks	Publish a benchmarking report by 30 November 2018	We published our annual benchmarking reports for electricity transmission and distribution networks on 30 November 2018. 
Resolve disputes within legislated timeframes, including disputes on network access and connections, and regulatory investment tests	100 per cent resolution	In 2018–19 we received requests relating to 17 electricity connection charge disputes. The Network Electricity Rules do not stipulate a fixed timeframe for resolution. Of the 17 cases, 14 cases were resolved: charges were reduced in two cases, and distributors' offers were found to be reasonable in the other 12 cases. We are still investigating one complex case and two other cases received at the end of the reporting period. 
Implement any reforms arising from Australian Energy Market Commission (AEMC) rule changes, by developing or amending guidelines, and through the regulatory determination process	Qualitative target	We developed or amended 12 guidelines in response to AEMC rule changes. 
Publish aggregated data sets for electricity transmission and distribution businesses	Publish the data sets by 30 June 2019	We updated the performance data for electricity transmission businesses in September 2018, and published performance data for electricity distribution businesses in November 2018. The data reflects the key components of our regulatory determinations, and other performance metrics. Our reporting covers 2006 to 2017, and we will update the data annually. 

Work program 2: Consumers and Markets

Actively monitor retail markets as new products and services are made available, to ensure our guidelines and systems remain efficient and effective	Qualitative target	We released the first AER Customer Hardship Policy Guideline in March 2019. The National Energy Retail Amendment Rule 2018 (which amended the National Energy Retail Rules) required the AER to develop a new binding customer hardship policy guideline by 1 April 2019. In March 2019 we published our first annual compliance report on the Electricity Distribution Ring-fencing Guideline 2017–18. We have been active participants in reviews and rule change processes on emerging issues that could have a significant impact on consumers, including stand-alone power systems, regulatory sandbox mechanisms to support innovation, and embedded networks.	
Ensure our price comparator website, Energy Made Easy, provides accurate and timely information for consumers	Publish all offers on the website within two business days of receiving them from retailers	We achieved this target by automating the process for publishing offers. Retailers initiate publication once they approve their plans for offer release within the system.	
Assess retailers' hardship policies (and proposed amendments) in a timely manner	Assess all policies and amendments within 12 weeks of receiving required information	We assessed 33 per cent of all policies within the targeted timeframe. This was due to a higher than expected volume and no additional resources available – processes such as the new hardship guideline, which had tight timeframes, impacted on our ability to redeploy existing resources.	
Assess retail authorisations and individual exemption applications in a timely manner	Assess all authorisations and individual exemption applications within 12 weeks of receiving required information	We assessed 33 per cent of authorisations and 10 per cent of individual exemption applications within the targeted timeframe.	
Apply processes to support the timely transfer of affected customers in the event of a retailer failure	Meet all obligations within statutory timeframes	There were two retailer failure events but no customer transfers.	

Work program 3: Market Performance

Report to the COAG Energy Council on the results of the performance of the AER wholesale electricity market monitoring functions	Deliver a report to the COAG Energy Council by 14 December 2018	We published the report on 11 December 2018.	
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Publish timely reports on wholesale electricity and gas market activity	Publish at least 75 per cent of weekly reports within 12 business days of the week's end	We published 37 per cent of gas and electricity weekly reports within the 12 business day threshold. Publication delays were due to the reallocation of resources to higher priority projects.	
Publish an annual performance report and quarterly data on the retail energy market (including energy affordability)	Publish an annual report by 30 November 2018	We published the report on 13 December 2018. This was late due to failures by retailers to provide accurate data to the AER. Note: In 2017-18 we reported on this deliverable under Work program 3: Retail energy markets	
Report within statutory timeframes on extreme price events in wholesale electricity markets, and significant price variations in spot gas markets	Publish all reports within statutory timeframes	We published all reports within statutory timeframes.	
Support the AEMC in progressing rule change proposals aimed at improving market efficiency	Engage in all processes where the AER can provide valuable perspectives	We made 22 submissions to AEMC rule change processes. We supported gas bulletin board reforms and the implementation of pipeline capacity trading reforms.	
Work program 4: Compliance and Enforcement			
Ensure enforcement action is targeted and proportionate to regulatory risk	Select matters for enforcement activity that improve market outcomes for customers	Our targeted enforcement action included issuing 19 infringement notices to retailers, generators and distributors under the National Energy Retail Law, the National Energy Retail Rules and the National Electricity Law. We also accepted one court enforceable undertaking under the National Electricity Law.	

<p>Compliance activities are targeted at ensuring the regulatory framework provides appropriate consumer protections</p>	<p>Qualitative target</p>	<p>In response to a rule change proposal from the AER, new rules strengthening protections for customers in hardship commenced in November 2018. The new rules built on the findings of our 2017 Hardship Policy Review, providing for a binding customer hardship policy guideline as a single point of reference for industry on how to apply the hardship obligations and to help customers understand their rights and entitlements concerning hardship.</p> <p>Following a rule change request from us, the AEMC published a final rule determination in December 2017 that strengthened protections for customers who have a person requiring life support equipment residing at their premises. The new rules came into effect on 1 February 2019.</p>
<p>Consistent with regulatory risk, conduct targeted reviews of compliance with the national energy rules, and report on outcomes</p>	<p>Conduct quarterly reviews of selected obligations, and publish outcomes in quarterly compliance reports</p>	<p>In 2018–19 we evaluated governance and organisational structures, leading us to review our priorities and reporting in some areas of work. We did not meet some performance indicators (including quarterly compliance reports and targeted compliance reviews) during the year, as we re-evaluated priority work.</p> <p>We completed two targeted reviews in 2018–19, compared with our target of four.</p>
<p>Audit the compliance systems of selected energy businesses, and report on outcomes</p>	<p>Audit systems for two energy businesses that are critical to market efficiency and energy security</p>	<p>In 2018–19 we did not complete audits of systems for two energy businesses but prioritised investigations relating to rules that are critical to market efficiency and energy security.</p> <p>We did complete five compliance audits under the National Energy Retail Law and National Energy Retail Rules, and initiated a further three.</p>

Publish quarterly compliance reports on wholesale markets and networks	Publish reports within six weeks of the quarter's end	We publish the outcomes of our enforcement work via our website and media releases. However, with the creation of the Compliance and Enforcement branch in September 2018, we have been reviewing our compliance reporting. Pending the review outcome, we published no quarterly compliance reports in 2018–19.	
Publish an annual compliance report on retail markets	Publish the report by 30 November 2018	We published an annual report on compliance and performance of the retail energy market (including an affordability analysis) in December 2018, covering the territory and states where the National Energy Retail Law applies: the ACT, New South Wales, Queensland, South Australia and Tasmania (electricity only).	
Provide clear and targeted communication with businesses	Conduct at least two roundtables or other forums with energy businesses on compliance Issue at least two 'compliance checks' to businesses	We launched our annual report on retail energy market compliance and performance at an industry forum in December 2018. Also in December 2018, we held a multi-occupancy metering workshop with the Australian Energy Market Operator (AEMO) and the AEMC. In 2018–19 we added additional formats to our industry guidance to businesses. We published four targeted guidance documents on new rules and guidelines to inform and support compliance: 1. AER compliance update: timeframes for the installation and repair of meters for small customers—February 2019 2. AER Life Support Registration Guide—January 2019 3. Guidance note: Compliance obligations: Retail Pricing Information Guidelines (RPIG)—January 2019 4. Guidance note: Natural Gas Services Bulletin Board—September 2019.	

Provide clear, targeted guidance to businesses on our compliance monitoring framework

Provide guidance to businesses on their compliance reports made under the compliance guideline, within eight weeks of the reporting period

We released revised compliance guidelines to improve the overall quality of compliance reporting, and permit better analysis of reporting trends. We also released a revised practice guide for compliance audits. Distributors and retailers covered by the compliance monitoring framework received a written summary of reporting outcomes. We did not meet targeted timeframes.



3. Meeting the Australian Government's expectations

Regulators actively contribute to the continuous improvement of regulatory frameworks	2018–19 target	Outcome
Regulators do not unnecessarily impede the efficient operation of regulated entities		
Apply regulation consistently with guidance developed in consultation with regulated businesses	Conduct independent surveys of stakeholder satisfaction with AER processes	We published the results of our last stakeholder survey in the AER's 2017–18 annual report. Our next survey is due to be conducted in early 2020.
Meet statutory timeframes applicable to our work program, to promote regulatory certainty	Document instances of non-compliance and why they occurred	No instances of non-compliance occurred in 2018–19.
Regularly meet with other agencies, including the AEMC, AEMO, the ECA, ASIC, the Utility Regulators Forum and the EISG, to share knowledge and experience of efficient regulation	Document the number of meetings with each agency, and the nature of engagement	We held meetings with each agency, forum and group in accordance with agreed schedules.
Assess the costs and benefits of additional information requirements before widening the scope of regulatory information notices	Consult with affected businesses in each instance	As required by the gas and electricity laws, we ran a two-stage consultation process with affected businesses before issuing a regulatory information notice. We balanced the cost of information provision against the benefits for each regulatory information instrument issued.
Communication with regulated entities is clear, targeted and effective		
Ensure regulatory determinations and other major decisions are accompanied by a decision document explaining the reasoning for the decision	Document instances of non-compliance and why they occurred	Our regulatory determinations were accompanied by fact sheets in plain English and short form overviews. Our consultation on guidelines was accompanied by explanatory documents.
Ensure guidance materials and decisions published by the AER comply with government accessibility guidelines	Document instances of non-compliance and how we remedied them	Our decisions met government web accessibility requirements.
Ensure the AER Board and staff engage with regulated businesses throughout the regulatory determination process	Document the number of meetings with businesses	We held meetings with regulated businesses throughout the determination process, and assigned designated relationship managers to each business.
Actions undertaken by regulators are proportionate to the regulatory risk being managed		
Apply a risk-based approach to compliance and monitoring activities	Document the basis for our compliance and monitoring focus in compliance reporting	Our compliance and monitoring activity accounted for risk assessments of the impact and likelihood of breaches.

Recognise the compliance record of regulated entities in making enforcement decisions	Document the reasoning for enforcement decisions in compliance reporting	Our enforcement decisions accounted for all relevant factors as set out in the Compliance and Enforcement Statement of Approach and the AER Compliance and Enforcement Policy and Priorities, which were released early in 2018–19.	
Compliance and monitoring approaches are streamlined and coordinated			
Ensure an agency-wide statement of approach guides compliance and enforcement activity across work program areas	Document our consistent application of a statement of approach	We commenced work in early 2019 on the Compliance and Enforcement Statement of Approach, the AER Compliance and Enforcement Policy, and Compliance and Enforcement Priorities, for their release in early 2019–20.	
Collaborate with the ACCC on energy market enforcement activity falling under the scope of both agencies	Document communication forums and the nature of engagement	Our Board members and staff worked with the ACCC on matters relating to conduct in energy markets where the Australian Consumer Law applies.	
For reporting purposes, use existing information where possible, and limit information sought from external parties to that necessary to undertake a task	Justify reasons for gathering information beyond that which is otherwise available	We developed reporting guidelines in consultation with stakeholders. We limited reporting requests to those required for the task.	
Regulators are open and transparent in their dealings with regulated entities			
Ensure stakeholders have an opportunity to provide written submissions before the AER makes major regulatory decisions	Document instances where submissions were not sought, and why they occurred	Our consultation processes for all major regulatory decisions included opportunities for stakeholders to make written submissions.	
Publish submissions to regulatory processes on the AER website	Document instances where submissions were not published, and why they occurred	Subject to meeting confidentiality and privacy protocols, we published all submissions to regulatory processes on the AER website.	
Publish decisions that clearly set out how we accounted for stakeholder views	Conduct independent surveys of stakeholder satisfaction with the transparency of AER decisions	We published the results of our last stakeholder survey (2018) in the AER 2017–18 annual report. According to that survey, 78 per cent of respondents were happy with our approach to consultation and engagement, up from 70 per cent in 2016. Seven in 10 respondents agreed our decisions are underpinned by evidence and robust analysis (up from 55 per cent in 2016). Our next survey is due to be conducted in early 2020.	
Consult with industry when preparing any guidelines or policies	Comply with our stakeholder engagement framework	In accordance with our stakeholder engagement framework, we developed all 2018–19 guidelines and policies in consultation with stakeholders.	

Engage with industry through forums	Document the number of meetings and the nature of engagement	Our Board members and senior executives gave 26 speeches at Australian and international forums.	
Apply risk-based frameworks, processes, guidelines and decisions that are publicly available	Survey stakeholder confidence in our consistency with published guidance	<p>According to our 2018 stakeholder survey, 69 per cent of respondents said we provide guidance that makes it easier for them to fit in with our processes.</p> <p>Three-quarters said we have a transparent decision making process (74 per cent). Around two-thirds said we provide consistent outcomes and decisions (68 per cent, up from 50 per cent in 2016), and they have a clear understanding of our decisions (67 per cent).</p> <p>Of respondents, 64 per cent felt our decision making processes enhance the predictability of the regulatory process (up from 51 per cent (in 2016).</p> <p>Our next stakeholder survey is due to be conducted in early 2020.</p> <p>In 2018–19 we published a Compliance and Enforcement Policy, as well as new annual enforcement priorities for 2019–20, which demonstrate our focus on risk-based frameworks, processes and guidelines.</p>	

Regulators actively contribute to the continuous improvement of regulatory frameworks

Engage with agencies that have energy market responsibilities, in accordance with legislation and memoranda of understanding	Document the number of meetings with each agency and the type of engagement	We held high level meetings with each agency in accordance with agreed schedules. Communication at staff level occurred more regularly, as needed.	
Engage in policy reviews, rule change processes and reform implementation through information sharing, submissions, and participation in forums	Document our engagement and relevant processes in each area	Information sharing occurred in accordance with memoranda of understanding. Part 6 Appendixes 1 documents our engagement through submissions. Our Board members and senior executives gave 26 speeches at Australian and international forums.	
Promptly respond to requests for information from government (including the COAG Energy Council) within specified timeframes	Adhere to agreed time frames	We met requests in accordance with specified or agreed timeframes.	

Part 4

Our people

Our staff are committed to making Australia's energy markets work for consumers, now and in the future. While a total of 253 staff worked at our agency in 2018–19, our staffing average across the year was 205.5 (including our Board and CEO). This average was substantially higher than the average of 160.5 in the previous year, in line with the broader expansion of the AER's resources and functions.

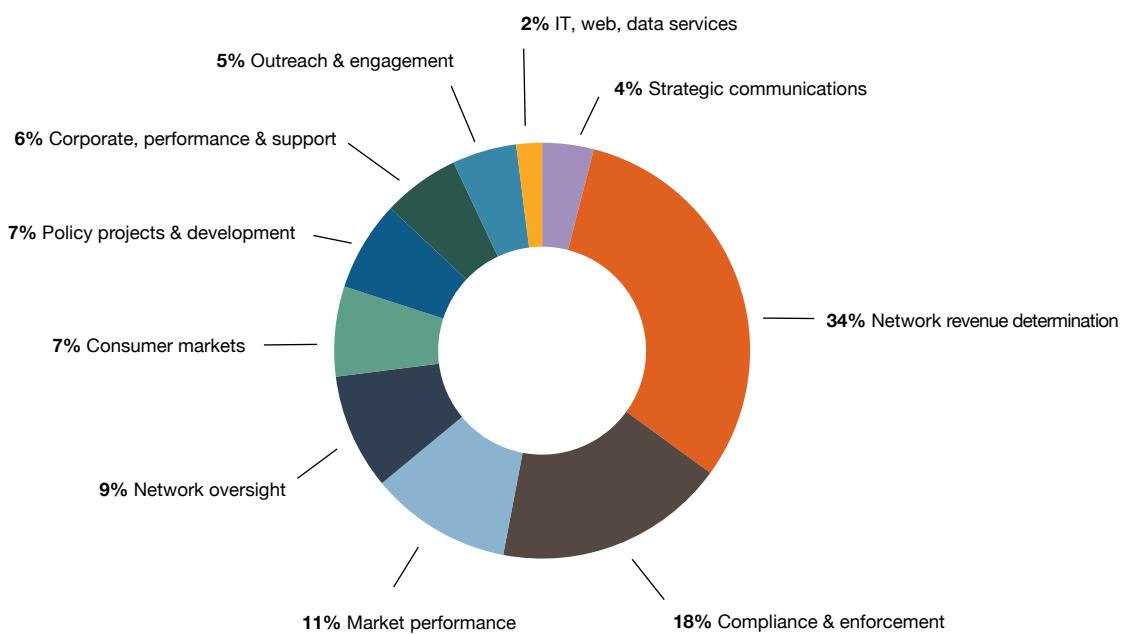
Our staffing in 2018–19 was supplemented by:

- 30 external contractors and three staff seconded from other agencies to help deliver our work program
- legal and economic staff shared with the Australian Competition and Consumer Commission (ACCC). Their contribution is higher in years when we undertake a large number of network decisions, when our network decisions are subject to appeals, or when major enforcement matters are underway
- staff from branches that we share with the ACCC: People and Culture, Finance, Information Management and Technology Services (IMTS) and other corporate services.

As in previous years, networks regulation absorbed a large proportion of our staffing resources in 2018–19 at 31 per cent (figure 2). This was down from 44 per cent in 2017–18. The released resources were absorbed across other program areas.

We devoted seven per cent of staff time to developing energy policy, implementing new policy initiatives (such as the development of a default market offer), and commencing work on the Value of Customer Reliability project. We continued to devote resources to our Strategic Transformation Program to enhance our governance, structure and culture as recommended by Nous group. We sustained our focus on compliance and enforcement (18 per cent of staff time) and increased our efforts in engagement, outreach and communication with stakeholders (9 per cent of staff time).

Figure 2: Allocation of AER staff time across functions, 2018–19



Staff turnover

Our staff turnover for 2018–19 was 4.85 per cent, down from 6.9 per cent in 2017–18.

Our capabilities

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

For this reason, our staff have a diverse range of experience. Some joined the AER from other regulatory agencies, both Australian jurisdictional utility regulators and international agencies such as Great Britain's Office of the Gas and Electricity Markets (Ofgem). Others came from consulting firms and the energy sector, and some had technical roles in system engineering. This broad skill base and experience gives us the flexibility to deal with a wide range of complex energy market issues. Plus, we supplement our internal staff with external technical expertise, particularly for network issues.

In addition, we have mechanisms in place to keep us up to date with regulatory best practice. One such mechanism is our program of staff exchanges with the Australian Energy Market Operator (AEMO), the Australian Energy Market Commission (AEMC), government agencies/ departments such as New South Wales' Independent Pricing and Regulatory Tribunal (IPART) and Attorney General's Department, and international regulators such as Ofgem and the New Zealand Commerce Commission.

Looking after our people

Training and development

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

In 2018–19 we strengthened staff capabilities, particularly our technical skills base, by offering learning and development opportunities. The Technical Advisor Group provided tailored courses on energy network planning principles, reliability standards and reporting, network operation and regulation, and emerging network trends and technology. Our people were also offered courses such as mental health, resilience, personal effectiveness and confidentiality.

In 2018–19, our staff participated the Energy Intermarket Surveillance Group (EISG). The group meets twice yearly and coordinates information and skills sharing among members on wholesale energy market surveillance and enforcement. In October 2018, we hosted the EISG meeting in Melbourne, the first time the meeting has been held in Australia since 2013. We presented on the development of market manipulation provisions in energy markets and our role in monitoring and reporting on the effectiveness of competition in the National Electricity Market (NEM). We also attended a subsequent EISG meeting in Austin, Texas in April 2019 where we presented on the Retailer Reliability Obligation and on ancillary services markets in the NEM.

Wellbeing

The health and wellbeing of our people is essential and we emphasise the importance of an appropriate work–life balance. Among the 2018–19 programs that reflect this commitment, we offered:

- mental health first aid principles training for a number of our people managers, and mental health external support coaching and counselling for individuals at high risk
- early invention strategies for employees with low level injuries, such as cover of medical expenses, time off work, and support services
- workstation assessments both in the office and at home, and lighting and acoustic assessments of office accommodation
- a fully funded influenza vaccination for all employees
- an Employee Assistance Program for employees and their immediate families to access free professional counselling for personal or employee related matters
- our Healthy Lifestyle Reimbursement scheme, which supports healthy lifestyle choices by eligible employees

- training sessions including building resilience, managing pressure, having difficult conversations, working with different personality styles, and supporting inclusion and diversity
- organisational support for staff to participate in and promote national initiatives such as RuOK and Ride to Work days
- our Ally Network of employees at all levels, which supports the LGBTIQ community. Along with our Workplace Contact Officer Network, it reflects our commitment to an inclusive workplace free from discrimination or bullying, and ensures staff have channels to raise concerns.

Remuneration

The Remuneration Tribunal determines our 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 3 sets out the nature and amount of our Board members' remuneration in 2018–19.

Most of our staff are Australian Public Service employees, employed under the ACCC/AER enterprise agreement that sets out remuneration, leave entitlements, and other conditions and allowances. Our CEO, general managers and some specialist staff are subject to individual determinations covering remuneration, leave and other employment conditions.

Table 4 sets out the remuneration of the AER Board. It excludes superannuation contributions, allowances and performance pay.

Table 4: Remuneration of the AER board, 30 June 2019

Position	Base salary	Total remuneration of office
Chair	\$507 690	\$532 690
Board members	\$379 471	\$399 250

Table 5 sets out our staff remuneration in 2018–19. It excludes superannuation contributions, allowances and performance pay.

Table 5: Remuneration of AER staff, 2018–19

Annual salary	Proportion of staff (%)
\$40 000 to \$59 999	2.7%
\$60 001 to \$79 999	18.4%
\$80 001 to \$99 999	26.6%
\$100 001 to \$199 999	26.6%
\$120 001 to \$139 999	10.5%
\$140 001 to \$159 999	8.6%
\$160 001 to \$179 999	0.8%
Above \$180 000	5.8

Workforce planning—age, tenure, gender and diversity profile

We are committed to developing a sustainable workforce for the AER. Our workforce reflects a range of ages and experience (see figure 3).

Our staff have significant collective experience in energy regulation. Over 40 per cent of staff have worked with us for more than five years, and over 30 per cent have over 10 years' experience (figure 4). But we're growing, and bringing in new skills and fresh ideas: in 2018–19 we engaged 33 new people (as staff and contractors), and just under 25 per cent of total staff commenced with us during 2018–19.⁴

We are committed to a diverse workforce (table 6). Our diversity activities in 2018–19 included programs on reconciliation with Indigenous Australians, Australia's culturally diversity, the embracing of all employees' sexual orientation and gender identity, and improved accessibility to employees with a lived experience of disability.

Figure 3: Age profile of AER staff, 30 June 2019

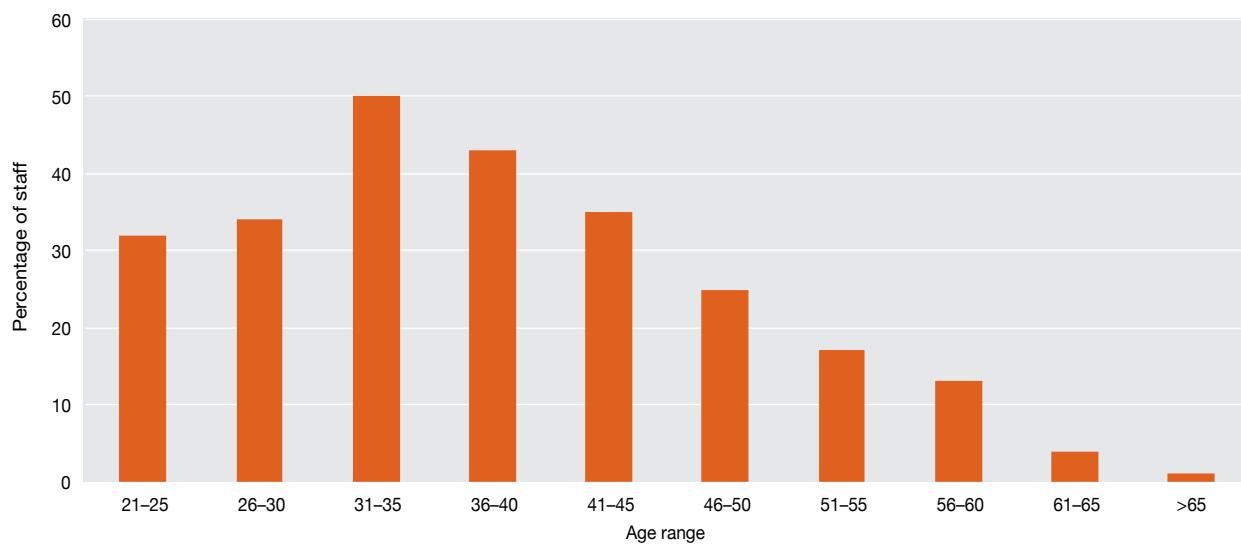
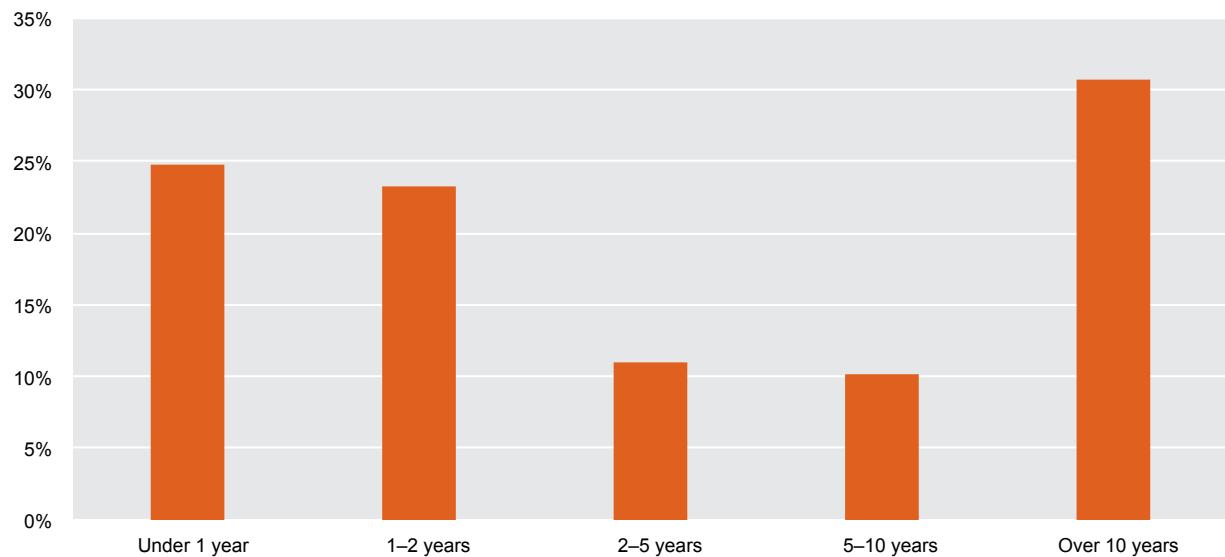


Figure 4: Tenure of AER staff, 30 June 2019



⁴ New starters include staff with longer tenures who transferred from the ACCC; previous contractors who secured positions as APS employees through public recruitment processes; and summer interns and graduates.

Table 6: AER workplace diversity, 30 June 2019

Classification	Total no.	Female staff	Staff from Aboriginal or Torres Strait Islander backgrounds	Self-identified staff from CALD backgrounds*	Staff with lived experience of disability
SES and AER Board members	11	4			1
Graduate	14	8	2		1
APS1	6	2			
APS2	1	1			1
APS3					
APS4	15	6		1	3
APS5	35	22	1	5	1
APS6	57	26		15	
EL1	78	38		13	2
EL2	39	14		8	2
Totals	256	121	3	45	8
Percentage		47.3%	1.2%	17.6%	3.1%

* CALD = culturally and linguistically diverse.

Note: A staff member may be classified under multiple headings.

Part 5

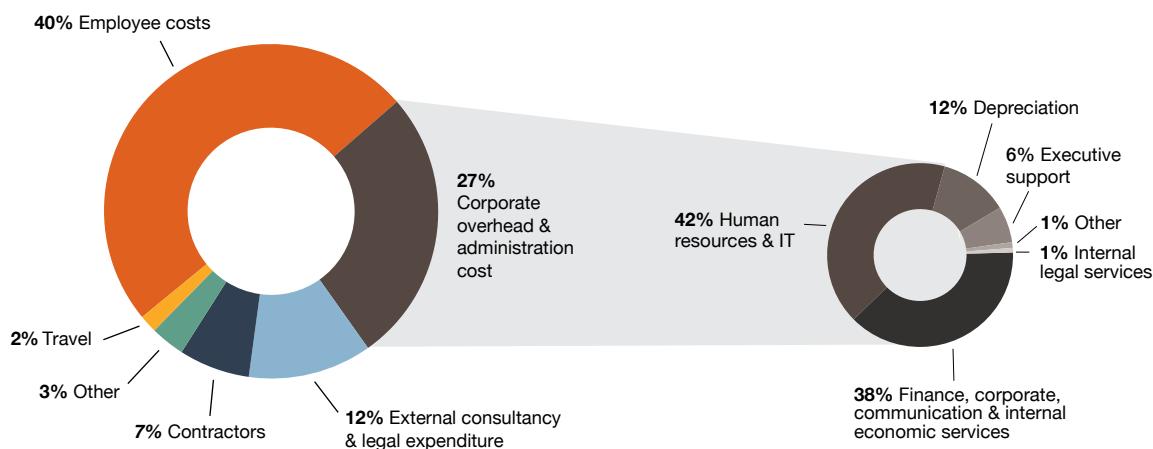
Our expenditure

Expenditure by category

Our total expenditure for 2018–19 was \$62.68 million up from \$48.15 million in 2017–18. This represents an increase of just over 30 per cent and flows from a significant and ongoing increase in our budget from the Australian government to allow us to undertake a range of new and expanded functions. This total included expenditure by the ACCC on the AER’s behalf in 2018–19 and was made up of the following cost categories (figure 5):

- Employee costs continued to be our primary operating expense, accounting for 50 per cent of the total expenditure (up from 46 per cent in the previous year).
- Corporate overheads and administration absorbed another 27 per cent (up from 22 per cent).
- External consultancy and legal costs accounted for 12 per cent of our total operating costs (up from 11 per cent).
- We continued to supplement our workforce in 2018–19 with external contractors to work alongside employees. Contracted staffing accounted for 6.9 per cent of our spending (down from 7.3 per cent). The combined costs of employees and onsite contractors accounted for 67 per cent of our total expenditure.

Figure 5: AER expenditure, by category, 2018–19



Expenditure by work program

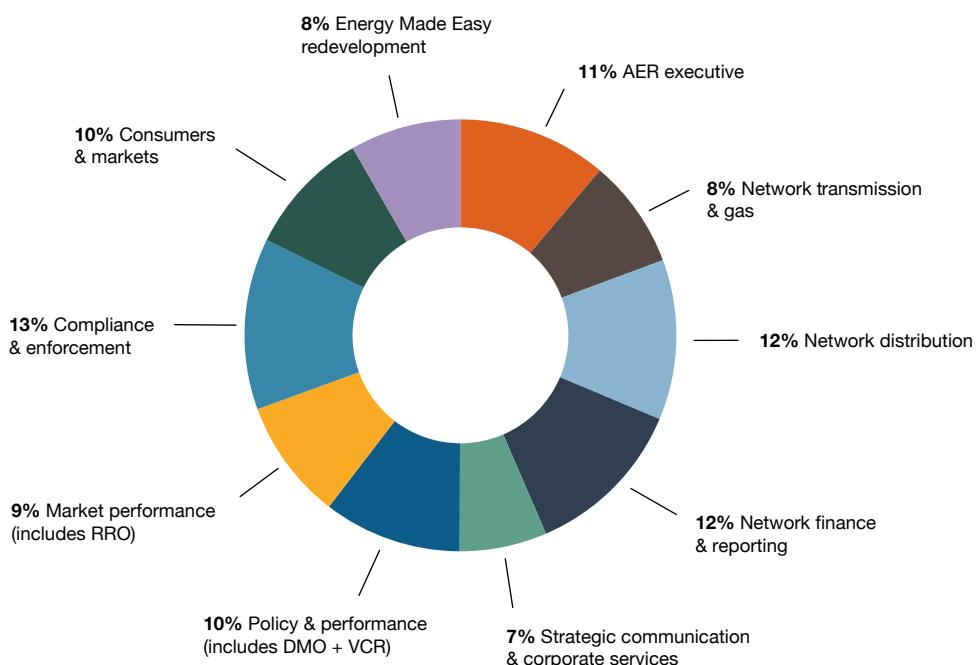
Our direct expenditure in 2018–19—excluding our contribution to corporate overheads and administration costs shared with the Australian Competition and Consumer Commission (ACCC)—was \$46.02 million, a 21.9 per cent increase on the previous year (direct costs in 2017–18 were \$37.75 million). This additional expenditure was funded through increases in operating budget for the delivery of new functions.

We implemented a new organisational structure in July 2018 following an external review of our governance, structure, culture and ways of working. We grew from six to eight branches, and allocated additional resources to a range of new functions and priorities (figure 6):

- Network regulation accounted for approximately 32 per cent of our direct costs in 2018–19, down from 49 per cent in the previous year. This reflected our increased focus on other energy priorities, the reduced number of network determinations during the year, and reduced need for external legal review of our decisions. Network regulation continued to draw heavily on the AER Executive and technical advisor group (which absorbed 11 per cent of direct costs).
- Our work in wholesale and retail energy markets accounted for 18 per cent of direct expenditure, with this work spread across our new Market Performance Branch and Consumers and Markets Branch.
- We consolidated our compliance and enforcement efforts by introducing a dedicated Compliance and Enforcement Branch, which absorbed 13 per cent of total direct costs.

- We increased our focus on energy policy development by introducing a Policy and Development Branch, which absorbed 10 per cent of our total direct costs. This branch does a range of energy policy work, delivers new functions (the Value of Customer Reliability project and the Default Market Offer) and represents the most significant shift in our priorities.
- We allocated around \$1.75 million of our annual expenditure to support the input of technical advisors and consumers. Specifically, we funded the Consumer Challenge Panel, the Consumer Reference Group and the Consumer Consultative Group to facilitate consumer input to our network revenue decisions, our development of the Rate of Return guideline, and retail energy market matters.

Figure 6: AER expenditure, 2018–19



Expenditure on consultants and external lawyers

Our total expenditure on advice from external consultants and lawyers was just over \$8.5 million in 2018–19, including approximately \$8.1 million (GST exclusive) on consultancy contracts (figure 7).

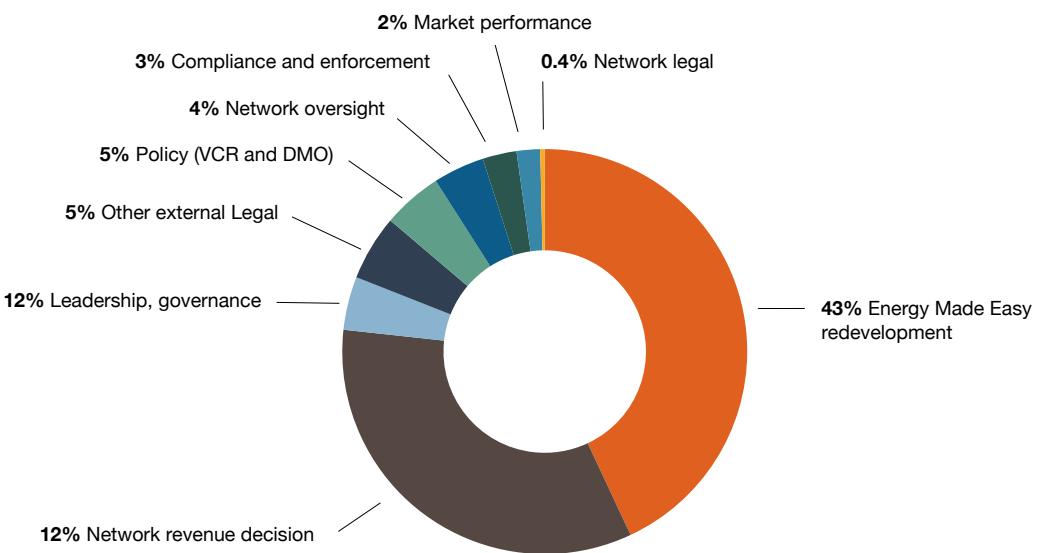
While we make significant use of in-house legal expertise, we engage external lawyers for legal appeals, enforcement matters and ad hoc expert advice. Our total expenditure on external lawyers in 2018–19 was \$417 114 (GST exclusive), up from \$215 194 in 2017–18. This expenditure related to compliance and enforcement activities in energy markets.

The largest proportion of our total consultancy and legal costs in 2018–19 related to the redevelopment of the Energy Made Easy website, at 43 per cent. Another large proportion related to the regulation and oversight of networks, when we drew on experts to assist with complex issues for our guidelines and to assess network businesses' proposals. Of this expenditure, 34 per cent related to network determinations in 2018–19, and four per cent related to network oversight (consistent with previous years).

The remainder of our total consultancy and legal spend in 2018–19 included:

- approximately eight per cent on compliance and enforcement initiatives
- around five per cent on our development of an approach to determine the Value of Customer Reliability
- six per cent on wholesale and retail markets, including costs for external dispute resolution, and for advice on retail bill benchmarks
- 17 per cent on consultancies to scope functionality enhancements and user testing of our Energy Made Easy website to inform redevelopment work
- four per cent on consultancies to inform our leadership, governance and ways of working
- a negligible share on market activities.

Figure 7: AER expenditure on consultancy and legal services, by work area, 2018–19



Expenditure on travel

We spent just under \$1.08 million on travel in 2018–19. This expenditure mostly related to domestic travel, and included travel by AER Board members, travel allowances, flights, ground travel and accommodation.

Employee costs

Wages and associated costs (including leave entitlements and superannuation, but excluding overheads) for our staff totalled \$31 million in 2018–19. This figure includes costs for AER Board members and the Technical Advisor Group but excludes the cost of engaging contractors to work onsite with our staff (approximately \$4.1 million). Total expenditure on employees and in-house contractors was \$35.1 million in 2018–19.

Corporate overheads and other costs

Our corporate overheads (\$16.7 million in 2018–19) 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 other office costs.

Part 6

APPENDICES

Appendix 1 AER submissions

SUBMISSIONS TO COAG ENERGY COUNCIL REVIEWS

National Electricity Rules and National Gas Rules to give effect to the binding rate of return instrument consultation, 25 October 2018

SUBMISSIONS TO AEMC RULE CHANGE PROCESSES

Metering installation timeframes (consultation paper), 12 July 2018

Cross period revenue smoothing (gas) (draft determination), 16 July 2018

Register of distributed energy resources (draft determination), 7 August 2018

Estimated meter reads (draft determination), 19 September 2018

Generator three year notice of closure (draft determination), 19 October 2018

Monitoring and reporting on frequency control framework (AER rule change request), 5 February 2019

Market making arrangements in the NEM (consultation paper), 28 February 2019

NT emergency gas supply arrangements, 22 March 2019

Application period for contingent project revenue (consultation paper), 4 April 2019

Victorian declared wholesale gas market reforms (consultation papers), 26 April 2019

Short term forward market (consultation paper), 27 May 2019

Monitoring and reporting on frequency control framework (consultation paper), 26 June 2019

SUBMISSIONS TO AEMC REVIEWS

Review of the regulatory framework for standalone power systems (issues paper), 16 October 2018

Coordination of generation and transmission investment review (options paper), 24 October 2018

AEMC Electricity network economic regulatory framework review – regulatory sandbox arrangements to support proof of concept trials (consultation paper), 1 February 2019

Review of the regulatory framework for standalone power systems (priority 1 draft report), 5 February 2019

AEMC electricity network economic regulatory framework review (approach paper), 14 February 2019

Updating the regulatory frameworks for embedded networks (draft report), 14 March 2019

Review of the regulatory framework for standalone power systems (priority 2 consultation paper), 29 March 2019

Coordination of generation and transmission investment implementation (consultation paper), 26 April 2019

Investigation into intervention mechanisms and system strength in the NEM (consultation paper), 16 May 2019

South Australian black system review (issues and approach paper), 24 May 2019

OTHER SUBMISSIONS

The Energy Charter (consultation draft), 18 October 2018

Independent Competition and Regulatory Commission – Review of the ACT consumer protection code, 1 February 2019

Review of the National Energy Retail Law in Queensland (discussion paper), 22 March 2019

Review of the coordination and funding of financial counselling services across Australia, 28 March 2019

Northern Territory Utilities Commission review – Ring-fencing Code and Guidelines review, 28 June 2019

Appendix 2 News releases

NEWS RELEASES

- AER releases draft decision on new rate of return guideline, 10 July 2018
- ENGIE pays penalties for alleged failure to comply with power dispatch order, 19 July 2018
- Draft AER determination benefits Endeavour Energy consumers, 20 July 2018
- Alinta Energy fined \$40 000 for allegedly switching customers without consent, 24 July 2018
- AER proposes improved cost–benefit analysis for network investment, 27 July 2018
- Penalties paid for alleged failure to submit accurate market performance data, 28 August 2018
- Consumer input vital on Evoenergy draft decision, 6 September 2018
- AER invites submissions on preliminary framework and approach for Victorian electricity distributors, 14 September 2018
- AER takes energy companies to task on life support, 19 September 2018
- Endeavour Energy customers benefit from AER determination, 20 September 2018
- AER makes reliability the focus of first Power and Water revenue determination, 27 September 2018
- AER focus on efficient spending for Evoenergy, 27 September 2018
- Price stability for TasNetworks customers, 27 September 2018
- AER seeks views on how much customers value energy reliability, 19 October 2018
- Efficient operation focus of draft decisions, 1 November 2018
- AER approves VIC networks 2019 tariff proposals, 8 November 2018
- Consultation kicks off on power price reforms for fairer energy deals, 9 November 2018
- Consumer input vital on Evoenergy final decision, 15 November 2018
- AER: efficient spending focus of Ausgrid draft decision benefits consumers, 22 November 2018
- Improving productivity helps consumer hip pocket, 30 November 2018
- Spotlight on effective wholesale competition during National Electricity Market transformation, 11 December 2018
- AER releases investigation report into South Australia's 2016 state-wide blackout, 14 December 2019
- AER to amend its approach to network tax estimates, 17 December 2018
- AER releases final decision on rate of return for regulated energy networks, 17 December 2018
- AER hits energy companies over alleged life support breaches, 18 January 2019
- Consumers win from AER decision on Ausgrid revenue, 24 January 2019
- Jemena consumers better off under AER draft decision, 24 January 2019
- AER opens final consultation on Default Market Offer, 23 February 2019
- Consumers benefit from JGN decision, 28 February 2019

AER to seek penalties to strengthen ring-fencing rules, 21 March 2019

Hardship protections a right not a privilege, 29 March 2019

Efficient spending focus for Evoenergy says AER, 30 April 2019

Network reliability a focus for the Northern Territory, 30 April 2019

Efficient costs support Tasmanian investment, 30 April 2019

AER decisions deliver efficient costs for NSW electricity distributors, 30 April 2019

AER issues Default Market Offer decision, 30 April 2019

Appendix 3 Decisions, reports and consultations

ELECTRICITY TRANSMISSION DECISIONS

Draft decision: TasNetworks transmission determination 2019–24, September 2018

Final decision: TasNetworks transmission determination 2019–24, April 2019

Decision: [AER—Final decision—Amendments to the electricity transmission and distribution post-tax revenue models - April 2019](#)

ELECTRICITY DISTRIBUTION DECISIONS

Draft decision: TasNetworks distribution determination 2019–24, September 2018

Draft decision: Power & Water Corporation distribution determination 2019–24, September 2018

Draft decision: Evoenergy distribution determination 2019–24, September 2018

Decision: Ausnet Services distribution determination 2016–20, contingent project, September 2018

Decision: Powercor distribution determination 2016–20, contingent project, September 2018

Draft decision: Essential Energy distribution determination 2019–24, November 2018

Draft decision: Endeavour Energy distribution determination 2019–24, November 2018

Draft decision: Ausgrid distribution determination 2019–24, November 2018

Decision: Early application of the Demand Management Incentive Scheme—Ausnet services, Ergon Energy, Energex, December 2018

Decision: Early application of the Demand Management Incentive Scheme—Endeavour Energy and Ausgrid, March 2019

Decision: Approach to forecasting opex productivity growth for electricity distributors, March 2019

Final decision: TasNetworks distribution determination 2019–24, April 2019

Final decision: Power & Water Corporation distribution determination 2019–24, April 2019

Final decision: Evoenergy distribution determination 2019–24, April 2019

Final decision: Essential Energy distribution determination 2019–24, April 2019

Final decision: Endeavour Energy distribution determination 2019–24, April 2019

Final decision: Ausgrid Energy distribution determination 2019–24, April 2019

Decision: Amendments to post tax revenue models—distribution network service providers, April 2019

GAS TRANSMISSION AND DISTRIBUTION DECISIONS

Draft decision: Australian Gas Networks access arrangement 2015–20—Mount Barker gas network extension, October 2018

Final decision: Australian Gas Networks access arrangement 2015–20—Mount Barker gas network extension, December 2018

Draft decision: Jemena Gas Networks access arrangement 2015–20—remittal, January 2019

Final decision: Jemena Gas Networks access arrangement 2015–20—remittal, February 2019

Final decision: Jemena Gas Networks access arrangement 2015–20—variation, April 2019

GAS PIPELINE EXEMPTION DECISIONS

Granted exemptions from elements of the requirements of part 23 of the National Gas Law, to 14 gas pipelines.

Revoked exemptions previously granted in respect of the requirements of part 23 of the National Gas Law, to 2 gas pipelines.

Granted exemptions from some elements of the requirements of part 24 of the National Gas Law, to 51 gas pipelines.

RETAIL ENERGY MARKET DECISIONS

Electricity retailer authorisations

Granted electricity retailer authorisations to:

- ReAmped Energy Pty Ltd, 20 July 2018
- The Embedded Networks Company Pty Ltd, 6 September 2018
- Arc Energy Corporation Pty Ltd, 2 April 2019
- Elysian Energy Pty Ltd, 13 May 2019.

Gas retailer authorisations

Granted gas retailer authorisations to:

- Real Utilities Pty Limited, 13 September 2018
- Sumo Gas Pty Ltd, 26 February 2019.

Individual retail exemptions

Granted individual retail exemptions to:

- The Trustee for The Seaford Property Investment Unit Trust for the sale of electricity, 3 August 2018
- Lightsource Labs Australia Pty Ltd for the sale of electricity, 23 October 2018
- Mirvac Real Estate Pty Ltd (Birken Head Point Brand Outlet) for the sale of electricity, 6 February 2019
- Mirvac Real Estate Pty Ltd (Cherrybrook Village) for the sale of electricity, 6 February 2019
- Mirvac Real Estate Pty Ltd (Stanhope Village Shopping Centre) for the sale of electricity, 6 February 2019
- Tangalooma Island Resort Pty Ltd for the sale of electricity, 17 May 2019
- ISPT Pty Ltd (Wagga Wagga Market Place) for the sale of electricity, 7 June 2019
- ISPT Pty Ltd (Richmond Market Place) for the sale of electricity, 7 June 2019

- ISPT Pty Ltd (Kincumber Village for the sale of electricity, 7 June 2019
- ISPT Pty Ltd (Fletcher Village) for the sale of electricity, 7 June 2019.

Retailer of Last Resort

Re-appointed Origin Energy Retail Ltd as default Retailer of Last Resort (ROLR) for customers connected to the Australian Gas Networks Limited (AGN) gas network in South Australia for the period 1 February 2019–31 January 2022.

Re-appointed AGL South Australia Pty Ltd as default ROLR for customers connected to the SA Power Networks distribution network in South Australia for the period 1 February 2019–31 January 2022.

Customer hardship policies

Customer hardship policies

Approved customer hardship policies for:

- Positive Energy TM Pty Ltd, 20 July 2018
- GloBird Energy Pty Ltd, 23 October 2018
- Discover Energy Pty Ltd, 29 November 2018
- Blue NRG Pty Ltd, 20 December 2018
- ReAmped Energy Pty Ltd, 9 January 2019
- Power Club Ltd, 7 February 2019
- The Embedded Networks Company Pty Ltd, 25 February 2019
- Real Utilities Pty Ltd, 13 March 2019
- Evergy Pty Ltd, 13 March 2019
- Apex Energy Holdings Pty Ltd, 20 March 2019
- Online Power and Gas Pty Ltd (trading as Future X Power), 20 March 2019
- Sumo Power Pty Ltd, 22 March 2019.

Approved customer hardship policy variations for:

- Origin Energy Pty Ltd, 6 February 2019
- EnergyAustralia Pty Ltd, 25 February 2019.

Updated customer hardship policies (assessed against new AER Customer Hardship Policy Guideline) for:

- Locality Planning Energy Pty Ltd, 20 June 2019
- Cova U Pty Ltd, 26 June 2019
- Real Utilities Pty Ltd, 26 June 2019.

REPORTS

Corporate reports

ACCC–AER Annual report 2017–18, October 2018

AER Annual report 2017–18, December 2018

ACCC–AER Corporate plan 2018–19, May 2019

Market performance reports

Prices above \$5000/MWh—9 July 2018 (SA), 7 September 2018
Prices above \$5000/MWh—4 January 2019 (Vic and SA), 26 March 2019
Prices above \$5000/MWh—25 January 2019 (Vic and SA), 26 March 2019
Prices above \$5000/MWh—1 March 2019 (Vic and SA), 1 May 2019
FCAS prices above \$5000/MW—8 July 2018 (SA), 22 November 2018
FCAS prices above \$5000/MW—25 August 2018 (QLD), 19 June 2019
Weekly electricity reports (35 in 2018–19)
Weekly gas reports (52 in 2018–19)
AER wholesale electricity market performance report 2018 and supporting documents
Wholesale electricity and gas market statistics (60 data series for gas and 31 for electricity)

Compliance reports

Investigation report into South Australia's 2016 state-wide blackout, December 2018
Annual report on compliance and performance of the retail energy market 2017–18, December 2018
AER compliance update—timeframes for the installation and repair of meters for small customers, February 2019
Guidance note—Natural Gas Services Bulletin Board, September 2019
Day Ahead Auction Record Keeping Guideline, November 2019

Regulated networks and pipelines reports

Demand Management Innovation Allowance (DMIA) assessment 2016–17 and 2017, July 2018
Transmission performance data 2006–2017, September 2018
Market operator service allocation costs 2018, September 2018
Annual benchmarking report—electricity distribution network service providers, November 2018
Annual benchmarking report—electricity transmission network service providers, November 2018
Electricity distribution performance data 2006–2017, November 2018
Annual gas compliance report 2016–17, February 2019
Annual ring fencing compliance report 2017–18, March 2019
Victorian electricity distributors fire start report (July 2017–June 2018), June 2019

GUIDELINES AND OTHER CONSULTATION

Distribution Service Classification Guidelines and Asset Exemption Guidelines, September 2018
AER Compliance Procedures and Guidelines—National Energy Retail Law, Retail Rules and Regulations, Version 6, September 2018
Values of customer reliability—consultation paper, October 2018
Review of operating environment factors, October 2018

Distribution Reliability Measures Guideline, November 2018

Service Target Performance Incentive Scheme 2018 amendment, November 2018

RIT-T and RIT-D cost thresholds review, November 2018

RIT-T and RIT-D Application Guidelines 2018, December 2018

Regulatory tax approach review 2018, final report, December 2018

Transmission Annual Planning Reporting Guidelines, December 2018

Rate of Return Guideline, December 2018

AER life support registration guide, January 2019

Guidance note—compliance obligations: Retail Pricing Information Guidelines, January 2019

Industry practice application note—asset replacement planning, January 2019

Consultation on the New Reg process—directions paper/approach paper, March 2019

Review of approach to forecasting opex productivity growth for electricity distributors, March 2019

AER Customer Hardship Policy Guideline, final, March 2019

Values of customer reliability—consultation paper update, April 2019

Post tax revenue models—amendment, April 2019

ICT expenditure assessment approach—consultation paper, May 2019

Consultation on the New Reg process—stakeholder forum, June 2019



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