



Progress Report on AER's assumption of gas transmission and energy distribution functions

Presentation by Steve Edwell, Chairman
Energy Regulation: managing the transition to a truly national
energy market
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Topics for discussion

- AER's existing functions
- The new national regulatory framework
- Implications for the AER
- AER's preparation for new functions - gas transmission, energy distribution and retail

AER's existing functions

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- The AER was established on 1 July 2005.
- Our current functions are
 - Economic regulation of electricity transmission networks
 - Advisor to ACCC on gas transmission
 - NEM monitoring and enforcement

Economic Regulation

- Electricity
 - Directlink (completed)
 - Powerlink
 - SP AusNet and VENCorp
- Gas (as advisor to the ACCC)
 - Roma- Brisbane Pipeline
 - Moomba-Adelaide Pipeline
 - Southwest QLD Pipeline
 - GasNet (expected to commence in April)

Market monitoring and enforcement

- Weekly and quarterly reports
- Special investigations of market incidents
- Will release an enforcement strategy shortly, and also the AER's first State of the Market Report

New National Regulatory Framework

Energy framework still under development

Stage I	NEL	Exposure Draft of amendments released Jan 2007
	NER	<p><u>Chapter 6 (Distribution)</u></p> <ul style="list-style-type: none"> •Exposure Draft of amendments expected Quarter 1 2007 <p><u>Chapter 6A (Transmission)</u></p> <ul style="list-style-type: none"> •Final Rules for economic regulation •Chapter 6A Part J - Final Rules for transmission pricing released Dec 2006 <p><u>Other Chapters</u></p> <ul style="list-style-type: none"> •No major overhauls •19 rule change proposals under AEMC consideration
	NGL	Exposure draft released Nov 2006
	NGR	Exposure draft released Nov 2006

MCE intends to have the NGL, NEL amendments and NGR in place by 1 July 2007

Energy framework still under development

Stage II	Legislative amendments	<p><u>Legislative package expected in 2008</u></p> <ul style="list-style-type: none">• Will deal with the transfer of retail and non-price distribution functions.
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- Also note impact of ERIG eg transmission planning

Expected timeframe for transfer to AER

		2005		2006		2007		2008	
		1-Jul	1-Jan	1-Jul	1-Jan	1-Jul	1-Jan	1-Jul	
Electricity Functions	<u>Regulation of electricity transmission</u>								→
	<u>NEM monitoring</u>								
	<u>Regulation of electricity distribution</u>								
Gas Functions									
	<u>Regulation of gas transmission</u>								
	<u>Regulation of gas distribution</u>								
Non-price distribution and retail functions									

Transfer of Electricity Distribution Functions

- Framework for distribution regulation still subject to consultation
- The AER is expected to perform reviews that commence after 1 July 2007
- Administration of existing determinations expected to transfer by 1 January 2008

Transfer of Gas Functions

- AER staff currently advise ACCC for gas transmission
 - The AER expects a smooth formal handover of responsibilities
- All new gas determinations (transmission and distribution) to be made by AER following passage of the new NGL and NGR, expected 1 July 2007
- Administration of existing determinations will also transition to the AER from this date

Non-price distribution and retail

- AER's role in non-price distribution and retail regulation will be developed over 2007
- The AER is participating in the MCE Retail Policy Working Group's consultation
- Division of functions between the MCE/AEMC/AER in relation to consumer protection arrangements is less clear
- Compliance / enforcement is expected to be a core AER role

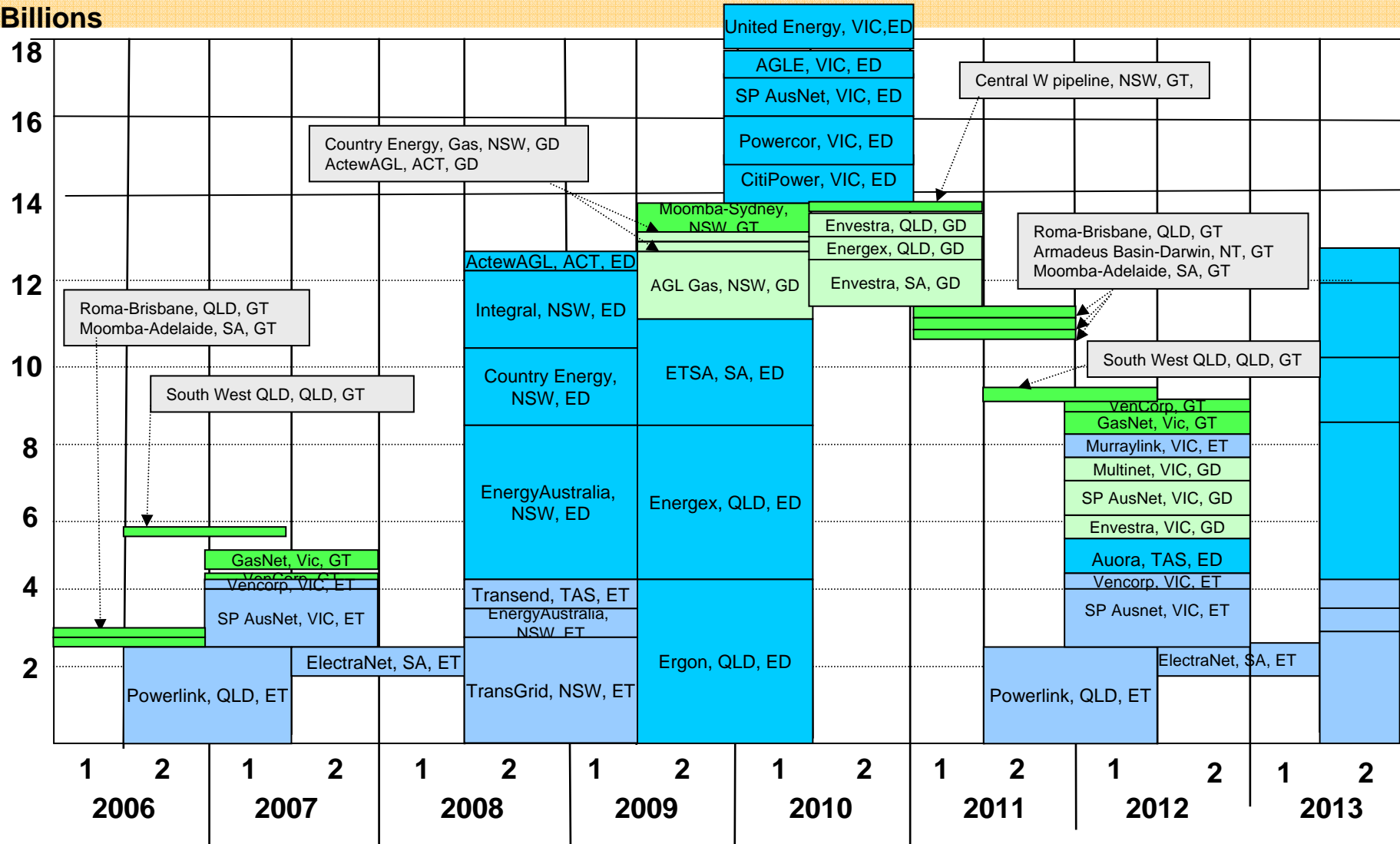
Implications for the AER

Implications for the AER

- Tight timelines:
 - Upcoming electricity transmission resets
 - Assumption of distribution functions for electricity and gas
 - Assumption of gas transmission functions
 - The AER will regulate over 40 nationally significant businesses
- Awaiting new legislation

Resets

\$ Billions



AER Preparations

AER's objectives

- Committed to smooth transition to national framework
- Keen to pursue ways to improve the quality of regulation. Looking at:
 - consistent and timely processes established well up front
 - streamlining implementation requirements through standard information templates
 - ways to make regulation less intrusive but still robust
 - ways to effectively engage stakeholders

AER energy work program

- First distribution resets in NSW/ ACT
- Regulatory guidelines for electricity transmission and distribution
- Consultation
- Internal organisation

NSW/ACT distribution resets

- Reset process expected to commence late 2007
- The AER working with ICRC, IPART and businesses to ensure smooth transition
- Secondment of staff to IPART and ICRC
- Close monitoring of developments in NEL and NER amendment process

Publication of Guidelines

- *Electricity distribution regulatory guidelines: Statement of Approach (2006)*
 - Outlined a consultation process on the development of guidelines for electricity distribution regulation
 - Driven by need to publish guidelines for NSW/ ACT reset
 - This is being reviewed- still awaiting NER exposure draft
- AER currently consulting on electricity transmission guidelines- potential synergies for distribution guidelines.

Consultation

- AER has been meeting with industry bilaterally, and also through its working group with the ENA
- Accommodating user groups cost effectively, including
 - Formal committees e.g. reset specific
 - Informal discussions e.g. AER regional offices
- Engagement with jurisdictional regulators
 - The AER has established a working group to identify transitional issues
 - Keeping track of current distribution resets, eg VIC gas and TAS electricity

Internal Organisation

- The AER Board is regularly briefed on developments in legislation and other transition issues
- AER Staff “Transition Committee” meets fortnightly

Internal Organisation

- Staff numbers have increased with increasing responsibilities
 - Currently over 70 staff
 - Offices in Canberra, Melbourne, Sydney and Adelaide
 - Expect to number 120-130 staff in two years
 - Brisbane office planned

Questions?