



AUSTRALIAN  
ENERGY  
REGULATOR

## **Power & Electricity Congress**

Presentation by Steve Edwell, Chairman  
Sydney Convention and Exhibition Centre, Darling Harbour  
21 November 2005

# Energy regulatory agencies

## Australian Energy Market Commission

- NEM rule making
- NEM development
- Gas market rule making / market development (from January 2007)
- Complying with policy directions issued by the MCE

## Australian Energy Regulator

- Electricity transmission regulatory functions
- Monitoring, reporting and enforcement of compliance of national electricity law and market rules
- Economic regulator of gas and electricity distribution networks (from January 2007)
- Non-price retail regulation (role / timing to be determined)

## Australian Competition & Consumer Commission

- Competition regulator and anti-competitive conduct and authorisation (TPA Part IV/VII)
- Mergers / Acquisitions (TPA Part IV)
- Consumer protection (TPA Part V)

# Australian Energy Regulator:

- Will become a “one-stop-shop” regulator for the energy sector
- Will assume role as national regulator on a staged basis
- AER’s role relates to all sectors of the industry
- Funded by the Commonwealth
- Is an independent legal entity (Part III AA of TPA) but a constituent part of the ACCC

# AER regulatory responsibility

## ➤ NOW:

- Electricity transmission
- NEM monitoring
- NEL enforcement

## ➤ JANUARY 2007:

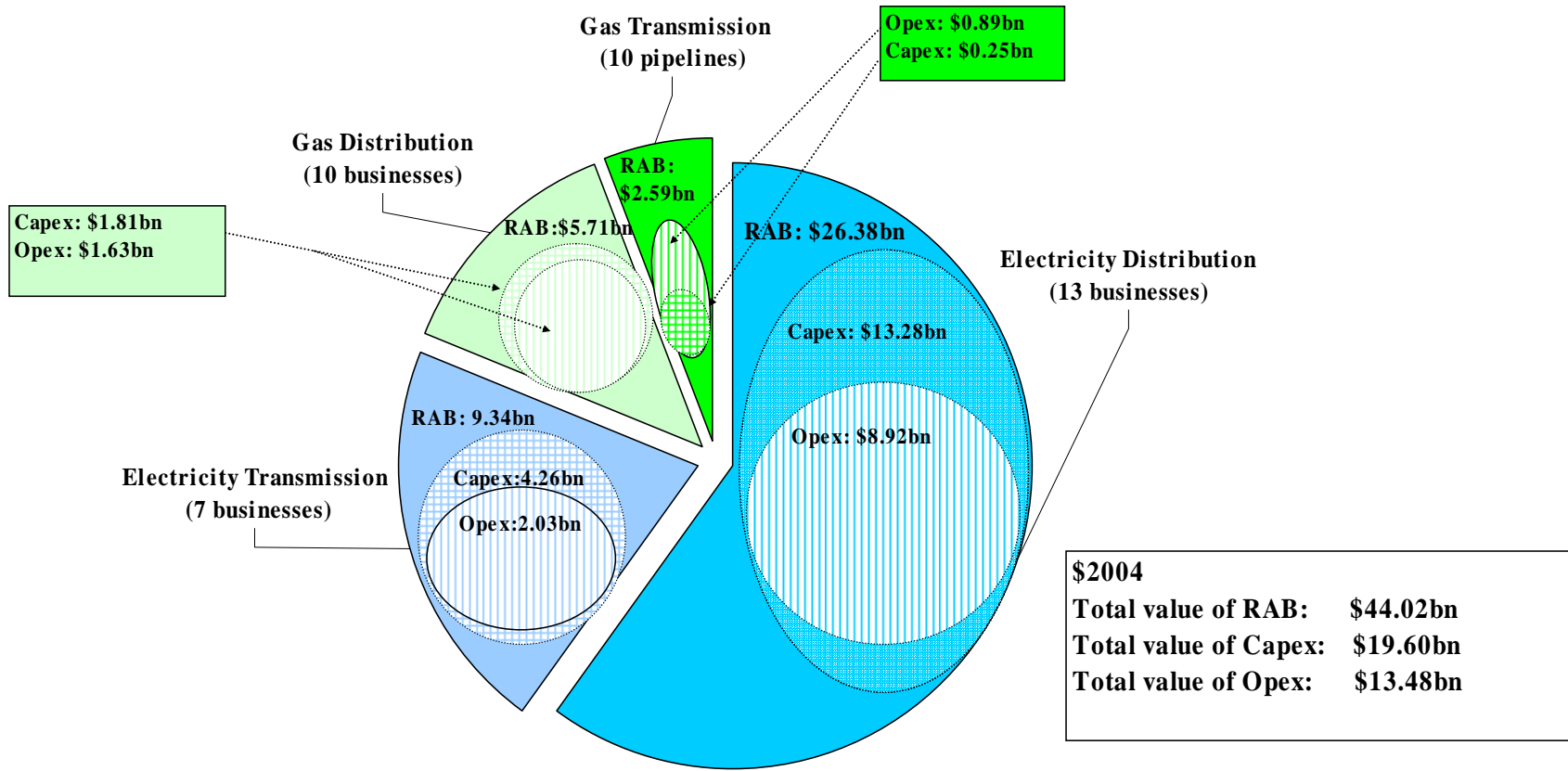
- Gas transmission
- Electricity and gas distribution

## ➤ YET TO BE DETERMINED:

- Non-price retail regulation

# Value of regulated sectors

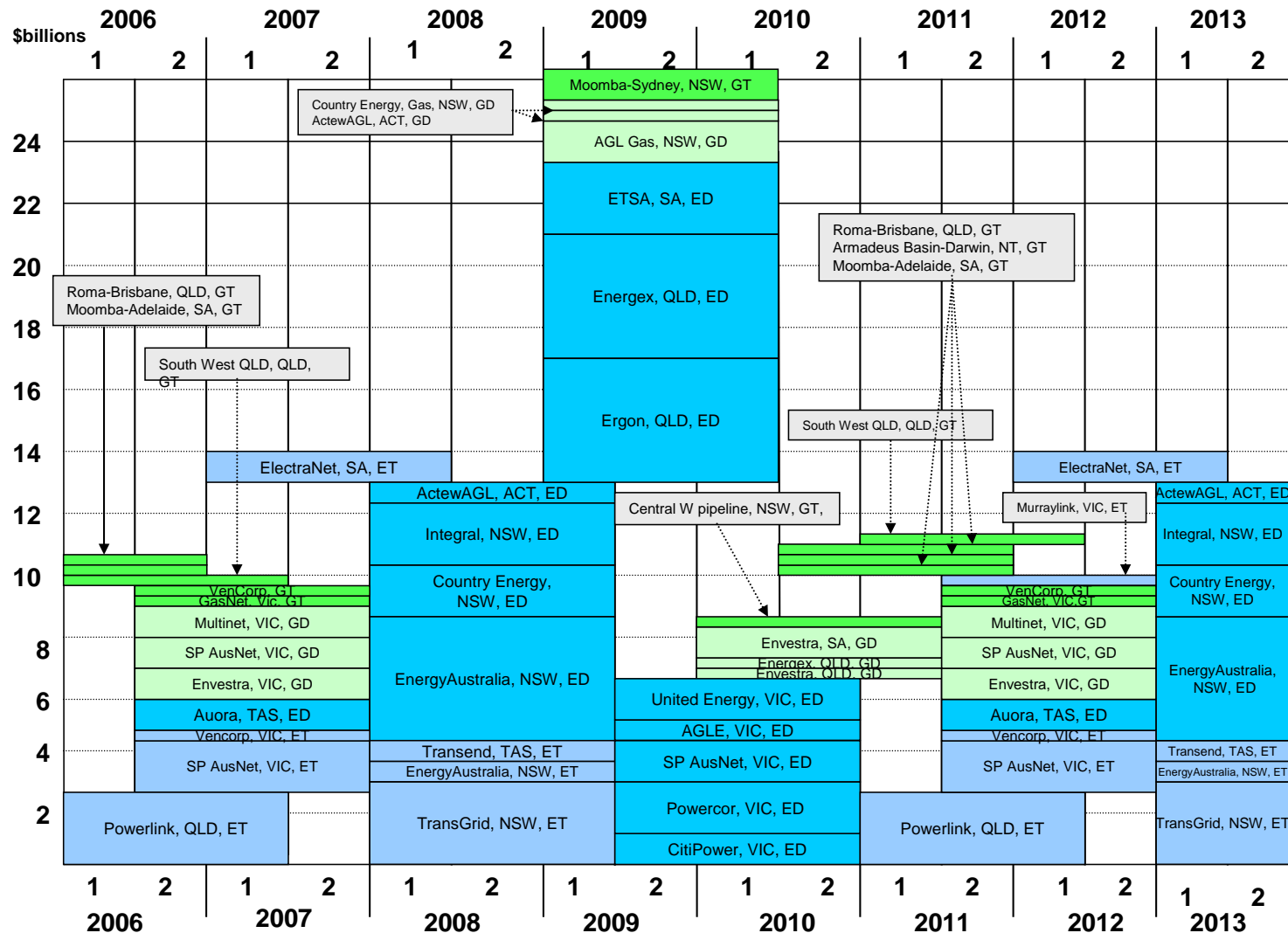
Total value of opening RAB, capex, opex of each regulated energy sector (\$billions)



# Timing of regulatory re-sets

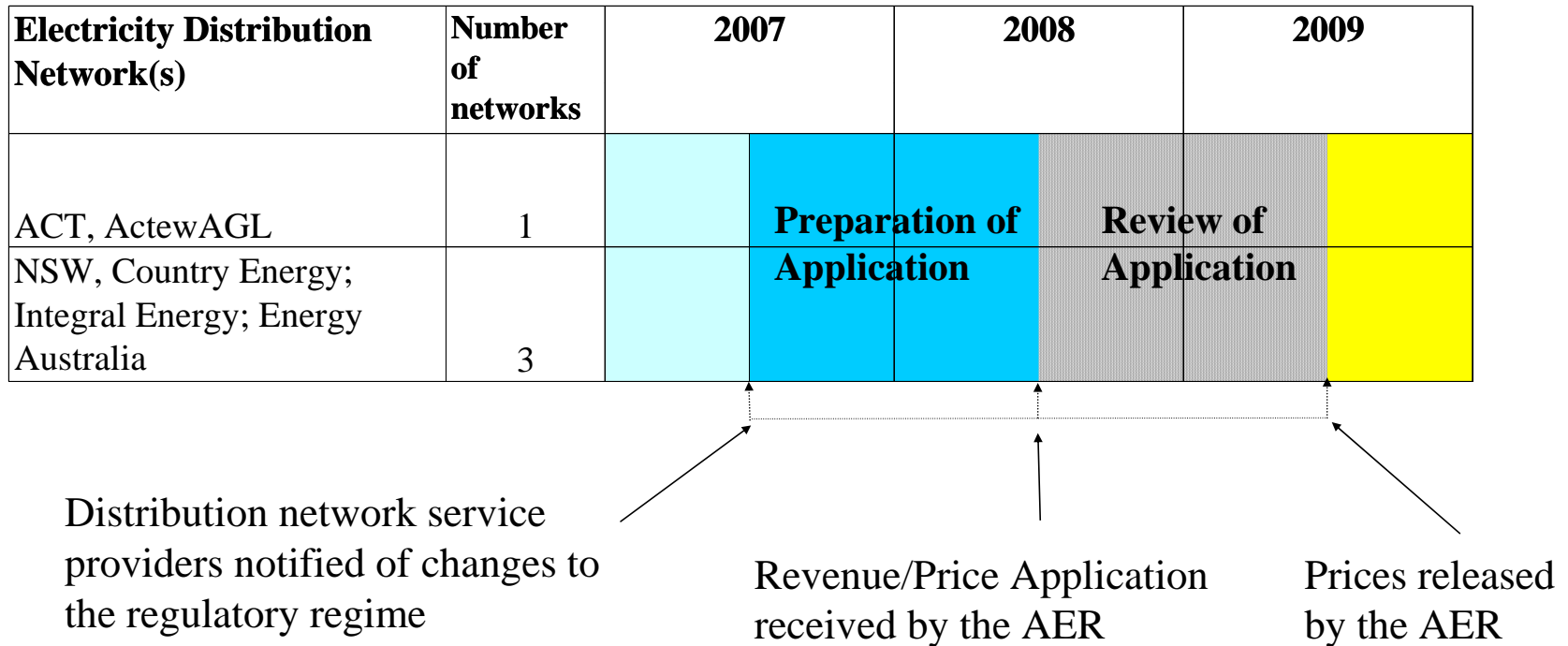
State, Regulator: Regulated Business(es)	Number of networks	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
<b>Electricity Distribution</b>															
ACT, ICRC: ActewAGL	1							1							
NSW, IPART: Country Energy; Integral Energy; Energy Australia	3						3								
QLD, QCA: Energex; Ergon	2							2							
VIC, ESC: SPAusnet; AGL; CitiPower; Powercor; United Energy	5								5						
SA, ESCOSA: ETSA Utilities	1							1							
TAS, OTTER: Aurora	1					1									
<b>Gas Distribution</b>															
ACT, ICRC: ActewAGL	1							1							
NSW, IPART: AGL Gas Networks	1							1							
NSW, IPART: Country Energy Gas	1							1							
QLD, QCA: Energex; Envestra	2								2						
VIC, ESC: SPAusnet; Envestra; Multinet Gas	3					3									
SA, ESCOSA: Envestra	1								1						
<b>Electricity Transmission</b>															
NSW, AER: Energy Australia	1						1								
NSW, AER: TransGrid	1						1								
QLD, AER: PowerLink	1				1										
VIC, AER: SPAusnet	1				1										
VIC, AER: VENCORP	1				1										
VIC, AER: Murray Link	1									1					
SA, AER: Electranet	1					1									
TAS, AER: Transend	1						1								
<b>Gas transmission pipelines, State, pipeline (pipeline owner/system operator)</b>															
NSW, Moomba to Sydney Pipeline (APT)	1							1							
NSW, Central West Pipeline (APT)*	1								1						
NSW, Dubbo to Tamworth (Central Ranges Pipeline)*	1	Access arrangements not yet in place													
QLD, Roma to Brisbane Pipeline (APT)*	1				1					1					
QLD, South West Queensland Pipeline (Epic Energy) <sup>1</sup>	1				1					1					
QLD, Queensland Gas Pipeline (Alinta)	1														
QLD, Carpentaria Gas Pipeline (APT)	1														
VIC, Transmission network (GasNet)	1					1					1				
VIC, Transmission network (VenCorp - system operator)	1					1					1				
SA, Moomba to Adelaide Pipeline (Epic Energy)*	1				1					1					
NT, Armadale Basin to Darwin Pipeline	1									1					

# AER's existing review timeline:



\*\* Based on current revenue / price reset expiry dates

# Timeline for undertaking reviews





# Energy regulatory framework still under intense review:

- Review by AEMC of NEM Rules relating to transmission regulation and pricing
- Review of the National Gas Pipeline Access Regime
- MCE 'harmonisation' review of energy distribution and retail regulation

# Energy regulation review

- Regulation is imprecise: it imposes costs as well as benefits
- Timely to have a fundamental look at regulation in the sector
- Establishment of a national energy regulator (AER) presents an opportunity for a potentially different approach
- Let's have the debate, then move on

# AER and regulation

- AER is keen to pursue improvements to regulatory practice where quality of regulation can be enhanced
- Compendium of Regulatory Guidelines is the starting point
- AER is interested in:
  - Shortening review timelines
  - Ensuring well defined processes
  - Streamlining information requirements
  - Strengthening incentive arrangements
  - Less intrusion
  - Better stakeholder consultation
- AER's regulatory framework to be established by AEMC / MCE reviews

# AER's approach to transmission regulation

- Compendium of Regulatory Principles
- Lock in asset values
- Ex-ante approach to capex assessment / contingent projects
- Lock in parameters of the WACC
- Prescribed regulatory process
- Incentive arrangements

# Key transition issues

- Key Objectives
  - Minimise price impacts
  - Consistency of approach
  - Streamline and lock in process
- Discussion paper and final decision on distribution regulatory framework

# Distribution transition

## AER's work agenda 2005 - 2007

### Stage 1

- Research the gas and electricity distribution industries
- Review jurisdictional decisions
- Meet with jurisdictional regulators
- Meet with network managers
- Meet with the AEMC
- Examine / consult on introduction of a cost model

### Stage 2

- Release discussion paper
- Invite submissions on discussion paper
- Consult with stakeholders, industry, business, AEMC
- Release draft decision
- Public forum on draft decision
- Consult with stakeholders, industry, business, AEMC
- Release final decision

### Stage 3

- Preparation for first distribution regulatory reset reviews
- Monitor new jurisdictional review determinations
- Liaise with jurisdictional regulators
- Respond to DNSP enquiries regarding the regulatory framework and their future applications
- Receive and assess first DNSP's regulatory review application

Ongoing consideration of outcomes from MCE, AEMC and other processes

# National Electricity Market objective

➤ Single clear national objective:

*“To promote efficient investment in, and use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, reliability and security of supply and the safety, reliability and security of the national electricity system.”*

# Market monitoring and compliance

- AER will undertake greater scrutiny and surveillance of the market
- Market reports
- Participants need a culture of market compliance
- Monitoring compliance with generator performance standards will be a priority