

# COAG Energy Council

## Meeting Communiqué

Wednesday, 14 December 2016

### ENERGY MINISTERS MET IN MELBOURNE TODAY FOR THE EIGHTH COAG ENERGY COUNCIL MEETING

*Ministers acknowledged that they were meeting at a critical time for Australia's energy market as they work to maintain the security, reliability, affordability and sustainability of the national energy system for all Australians.*

*Ministers agreed to significant reforms to the Limited Merits Review regime, the Regulatory Investment Test for Transmission and the gas market, including continued implementation of the gas supply strategy.*

*Ministers recognised the need to guide the transition of the National Electricity Market from a system of centralised, synchronous generation designed for a different electricity market to a more distributed, low-emissions, flexible electricity system driven by new technologies and changing consumer preferences.*

#### **A Blueprint for the future of the National Electricity Market**

The future security of the National Electricity Market (NEM) remains the top priority of the Council.

At the 7 October 2016 Energy Council meeting, Ministers agreed to an independent review of the future security of the NEM, led by Australia's chief scientist Dr. Alan Finkel AO. Dr. Finkel briefed Ministers on his preliminary report, the *Independent Review into the Future Security of the National Electricity Market* which was presented to COAG leaders on 9 December 2016.

Dr. Finkel updated Ministers on actions taken since the events in South Australia on 28 September 2016 to strengthen the security of the NEM, including a requirement for the capacity of two synchronous generators in South Australia; a more conservative approach to managing generation dispatch in maintaining system security; and a controlled operation of the Heywood interconnector.

Dr. Finkel also noted the declining cost of new renewable energy technology and significant innovation occurring in the area of energy storage, including battery technologies.

Ministers acknowledged the release of the *Final Report on the Integration of Energy and Emissions Reduction Policy* (the Report) by the Australian Energy Market Commission (AEMC) and the Australian Energy Market Operator (AEMO). The study investigated the impacts of three different emission reduction policies on the security of the power system; affordability; cost to the economy; sustainability; and alignment with energy market frameworks. Analysis from the Report is being considered by Dr. Finkel over the course of his Review.

Following Dr. Finkel's presentation, Ministers agreed to fast-track for consideration in February additional measures to strengthen the NEM and accelerate proof-of-concept projects in order to respond to security and reliability issues identified in the preliminary report.

#### **Gas Market Reform**

The Council is acting to reduce costs for gas users and improve liquidity and supply in the gas market. Ministers welcomed and released the *Examination of the Current Test for the Regulation of Gas Pipelines*, conducted by Dr. Michael Vertigan AC.

Dr. Vertigan found that there is an uneven bargaining relationship around the transport of gas. Transportation is up to 15 per cent of the price of gas, and costs will be lowered through mandating greater disclosure and transparency of pipeline services and pricing, and mandating commercial arbitration.

Ministers asked Dr. Vertigan to bring forward his recommendations to allow commencement on 1 May 2017, subject to the passage of amendments to relevant laws, with an update to the Council on progress in February 2017. Officials will review the subsequent measures two years following implementation.

Ministers acknowledged early progress made to implement the Council's Gas Supply Strategy, noting each jurisdiction's unique circumstances. Ministers recognised gas is a critical transition fuel and therefore the need for more gas and gas suppliers.

### ***Limited Merits Review***

Ministers welcomed the *Review of the Limited Merits Review (LMR) regime*. The LMR regime is failing to meet its policy intent and is leading to higher prices for consumers.

Ministers reaffirmed their strong support and confidence in the Australian Energy Regulator's (AER) performance and ability to make regulatory decisions in the long-term interests of consumers.

There was no consensus around the need for the LMR regime to be abolished. However there was in-principle agreement among Ministers to significant and immediate reform of LMR arrangements, including but not limited to the following areas:

- Tighten and clarify the grounds for review
- Higher financial thresholds for leave which apply to individual grounds for review
- Reviews to be conducted on the papers, rather than through expensive and adversarial oral hearings
- Reviews to be conducted within a strict timeframe
- A strengthened requirement for review appellants to demonstrate that overturning the regulator's decision would not be to the serious detriment of the long-term interests of consumers
- More flexible arrangements for consumer participation in reviews
- Introduction of a binding rate-of-return guideline, with relevant elements of the regulator's decision not subject to merits review
- Remove opportunities for gaming by limiting the timeframes in which material can be submitted to the regulator
- Costs of reviews, including those of the AER, to be borne by network businesses

Ministers have asked for a working group of officials to quickly develop detailed amendments for Ministers' consideration and approval in the first quarter of 2017. Ministers agreed that a further review of the regime be undertaken by officials two years following implementation of these amendments.

### ***Regulatory Investment Test for Transmission***

Ministers recognised a need for greater connectivity between states and that improvements can be made to the Regulatory Investment Test for Transmission (RIT-T) to ensure a more timely and effective test.

Ministers agreed the market benefits test remains appropriate, and agreed to a number of improvements, including ensuring that system security and emission reduction goals are adequately considered; low probability but high impact events like the South Australian system black event in September are appropriately taken into account; and information about transmission networks is more accessible to support more effective engagement by non-network providers. Ministers also agreed the AEMC will further explore the merits of increasing AER oversight of the RIT-T.

### ***Empowering and protecting consumers***

Ministers welcomed the release of the *National Energy Productivity Plan (NEPP) Annual Report 2016*. Actions taken under the NEPP will improve energy productivity by 40 per cent to 2030 through energy market reforms and energy efficiency measures that make businesses more competitive, households better placed to manage their energy costs and result in emissions reductions.

### ***Stakeholder Roundtable***

Ministers led a Stakeholder Roundtable with over 100 participants from not-for-profit organisations, consumer groups, industry bodies and businesses. Participants discussed Dr. Finkel's preliminary report on the future security of the NEM, the AEMC's interim report on power system security, and Energy Consumers Australia's work on reducing consumer disconnections.

### ***National Wind Farm Commissioner***

The National Wind Farm Commissioner, Mr Andrew Dyer, presented key insights from his work into resolving complaints as National Wind Farm Commissioner since November 2015.

### ***Matt Zema Scholarship***

Following the passing of Matt Zema, the inaugural Chief Executive Officer of AEMO, Council agreed to establish the Matt Zema Energy Studies Scholarship. AEMO will manage the Scholarship with expressions of interest for the first round of offers to open in early 2017.

## **Membership**

The COAG Energy Council comprises Commonwealth, State, Territory and New Zealand Ministers responsible for energy and resources.

Commonwealth (Chair)	The Hon Josh Frydenberg MP Minister for the Environment and Energy
Commonwealth	Senator the Hon Matthew Canavan Minister for Resources and Northern Australia
New South Wales	The Hon Anthony Roberts MP Minister for Industry, Resources and Energy
Victoria	The Hon Lily D'Ambrosio MP Minister for Energy, Environment and Climate Change  The Hon Wade Noonan MP Minister for Industry and Employment  Minister for Resources
Queensland	The Hon Dr. Anthony Lynham MP Minister for Natural Resources and Mines  The Hon Mark Bailey MP Minister for Energy and Water Supply
Western Australia	The Hon Sean L'Estrange MLA Minister for Mines and Petroleum  The Hon Dr. Mike Nahan MLA Minister for Energy
South Australia	The Hon Tom Koutsantonis MP Minister for Mineral Resources and Energy
Tasmania	The Hon Matthew Groom MP Minister for Energy  The Hon Guy Barnett MP Minister for Resources
Australian Capital Territory	Mr Shane Rattenbury MLA Minister for Climate Change and Sustainability
Northern Territory	The Hon Kenneth Vowles MLA Minister for Primary Industry and Resources  The Hon Nicole Manison MLA Treasurer
New Zealand	Hon Simon Bridges MP Minister of Energy and Resources

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