

COAG ENERGY POLICY DETAILS: 8 JUNE 2001

ATTACHMENT 1

TOWARDS A NATIONAL ENERGY POLICY

Energy policy in context

The energy sector, both stationary and transport, provides an essential underpinning of Australia's economic, environmental and social goals. Competitively priced and reliable energy services are a key to our international industry competitiveness and standard of living. Energy services are also essential for the development of Australia's regions. Production and exports of energy commodities, technologies and services also contribute significantly to Australia's national wealth and to job creation.

Australian energy demand is growing rapidly (for example, electricity use has grown by 28 percent between 1990 and 1998, and is forecast to grow by at least that much again by the end of this decade). At the same time, energy supply and use is a significant and increasing source of greenhouse gas emissions (over the same period, Australia's greenhouse gas emissions grew by 31 percent) and is a major factor in our urban air quality. Meeting our future energy needs will require careful policy design so that fuel choice and use are optimised from economic, operational, reliability and security of supply, and environmental perspectives.

Australia is well endowed with fossil and renewable energy resources and has strong capabilities across a wide range of energy technologies. However, this resource availability and technological capacity is not sufficient, in itself, to guarantee future secure, reliable and competitively priced provision of energy services to business and the community. Australia can be expected to remain substantially reliant on its fossil fuel supplies for energy needs for the foreseeable future. Efficient energy markets and an effective policy framework are needed to reduce investment uncertainty, facilitate infrastructure development, encourage the development and uptake of alternative, environmentally friendly energy services and facilitate more efficient use of energy throughout the economy. Sound decision-making processes, both in industry and government, contribute to the achievement of effective and efficient energy markets.

Further energy market development, for example development of our energy resources including natural gas, greater electricity interconnection and more efficient use of energy, will widen Australia's industry development possibilities and associated economic benefits. It also provides opportunities for greater uptake of distributed electricity generation based on gas technologies or for more extensive application of renewable technologies - both offering environmental benefits. In more remote parts of Australia, concerted efforts should be made to provide reliable, cost-effective long-term alternatives to grid power, including renewable energy.

At the same time, it must be recognised that Australia's energy market operates in the context of a dynamic international energy market. Decision-making in this context must be flexible and responsive to significant developments in energy policy in major producing and consuming countries; it must ensure that our international competitiveness is enhanced, and that Australia is well placed to take advantage of emerging opportunities to supply energy commodities, services and technologies.

Energy is a shared responsibility among the Commonwealth, State and Territory Governments. The Commonwealth has a national leadership role to ensure overall prosperity and that Australia's international obligations are met. States and Territories have particular responsibilities within their jurisdictions, including in relation to the provision of energy services to the communities they serve.

All Australian Governments recognise that effective operation of an open and competitive national energy market contributes to improved economic and environmental performance, and to delivering benefits to households, small business and industry, including in regional areas. Governments also recognise the substantial progress since the 1991 Industry Commission Report on Electricity Generation and Distribution and the 1995 Australian Gas Industry and Markets Study. However, there remain immediate and long-term issues that need to be addressed. They include National Electricity Market (NEM) issues of capacity, interconnection, pricing (including transmission pricing), NEM governance, and regulatory overlap, the facilitation of increased market penetration of natural gas and improved demand management.

A NATIONAL ENERGY POLICY FRAMEWORK

Governments agreed to establish a national energy policy framework to guide future energy policy decision-making by jurisdictions and to provide increased policy certainty for energy users, including households and small business, and for the energy sector.

Agreed Objectives

COAG agreed to the following national energy policy objectives:

- Encouraging efficient provision of reliable, competitively-priced energy services to Australians, underpinning wealth and job creation and improved quality of life, taking into account the needs of regional, rural and remote areas;
- Encouraging responsible development of Australia's energy resources, technology and expertise, their efficient use by industries and households and their exploitation in export markets; and
- Mitigating local and global environmental impacts, notably greenhouse impacts, of energy production, transformation, supply and use.

Agreed Principles

Consistent with these agreed objectives, and in light of their responsibilities under the Constitution, all Australian Governments agreed that their energy policies will:

- Recognise the importance of competitive and sustainable energy markets in achieving these objectives;
- Continuously improve Australia's national energy markets, in particular between and among jurisdictions and - recognising growing convergence between energy markets - between energy sources, and supply and demand side opportunities;
- Enhance the security and reliability of energy supply, encompassing resource availability, conversion, transportation and distribution, and recognising the impact of government policy and the regulatory environment on private sector investment and operation;
- Stimulate sustained energy efficiency improvements to technologies, systems and management proficiency across production, conversion, transmission, distribution and use;
- Encourage the efficient economic development and increased application of less carbon-intensive (including renewable) energy sources and technologies, including exploring opportunities for appropriate inter-fuel substitution;
- Recognise that Australia's energy markets operate in the context of world energy markets and seek to enhance Australia's international competitiveness in these markets;

- In view of the importance of long-term investment in the energy sector, provide the degree of transparency and clarity in government decision-making required to achieve confidence in current and future investment decisions;
- Carefully consider the social and economic impacts on regional and remote areas, with particular regard to businesses, industries and communities; and
- Facilitate constructive, effective inter-jurisdictional cooperation and productive international collaboration on energy matters.

PRIORITY ACTIONS

Australian Governments are already cooperating extensively in pursuing energy policy initiatives, particularly in the development of electricity and gas markets, delivery of energy efficiency programmes and the design and implementation of energy-related greenhouse response measures.

As well as agreeing to the proposed national energy policy framework, all Australian Governments today reaffirmed their existing commitments to currently-agreed principles and reforms and currently-announced timetables underpinning the development of the national electricity and gas markets and reform of the energy sector. The Queensland and South Australian Governments noted that while they will make best endeavours to meet current timetables for the extension of retail contestability, some slippage may occur in this area.

At the same time, Governments also recognise that more needs to be done so that the Australian community can gain the full economic, social, environmental and regional benefits from effective and coordinated energy policy. Governments have agreed to the continued development of an efficient national energy market and cooperation in existing joint energy and energy efficiency initiatives.

COAG agreed that the national energy policy objectives be supported by further priority action in the following key areas:

1. National energy policy leadership

Governments agreed to establish a Ministerial Council on Energy as soon as possible and that the new Council should meet as soon as possible. The new Council will have responsibility to provide effective policy leadership to meet the opportunities and challenges facing the energy sector and to oversee the continued development of national energy policy. COAG requested the Council to consider and resolve a series of priority tasks as part of its ongoing work programme (at Attachment 4). Following its first meeting, the new Council will report back to members of COAG out of session on key approaches and timetables on these tasks. The Council will oversee the processes of the independent COAG energy market directions review to be undertaken by a three-person expert panel.

2. Immediate action on high priority national electricity market issues

Governments recognise that there are National Electricity Market (NEM) issues which require immediate attention. COAG noted the convening of a NEM Ministers' Forum comprising Ministers from New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory with specific responsibilities in relation to the NEM, in which the Commonwealth and Tasmania will participate. COAG requested the Forum to give urgent attention to the NEM issues of impediments to investment in interconnection, transmission pricing, regulatory overlap, market behaviour (eg rebidding), and the effectiveness of regulatory arrangements in promoting efficient market outcomes. COAG requested the Forum to address regional boundaries and demand side participation (see Attachment 5). This Forum will meet on 26 June 2001 and following this meeting, the Forum will report back to members of COAG out-of-session on key approaches and timetables for priority tasks

(Attachment 5). COAG also asked the National Electricity Code Administrator (NECA) to assess the operation of the Value of Lost Load (VoLL) and, in NECA's current review under the National Electricity Code, for it to give early attention to NEM bidding and rebidding rules.

3. High-level independent strategic review of medium to longer term energy market directions

Governments recognise that to generate the most significant benefits, including the wider penetration and uptake of natural gas, there needs to be a focus on strategic issues affecting Australia's energy future, and the capacity of the market and institutions to respond to future challenges and international developments. COAG agreed to an independent review to identify the strategic issues for Australian energy markets and the policies required from Commonwealth, State and Territory Governments. The agreed terms of reference for this review are at Attachment 6. COAG requested the new Ministerial Council on Energy to oversee the review processes (expected to take around 12 months from commencement) and agreed that the final review report would be provided concurrently to all members of COAG through the Ministerial Council on Energy. Costs of the review would be shared by the Commonwealth and the States/Territories on a 50:50 basis.

MINISTERIAL COUNCIL ON ENERGY

Objectives

- To provide national oversight and coordination of policy development to address the opportunities and challenges facing Australia's energy sector into the future.
- To provide national leadership so that consideration of broader convergence issues and environmental impacts are effectively integrated into energy sector decision-making.

Strategic Priorities

1. Oversight the process of the independent strategic review of energy market directions. (The final review report will be provided concurrently to members of COAG through the Ministerial Council);
2. Examine and report back to members of COAG out-of-session following the Council's first meeting on key approaches and handling timetables for the following priority issues:
 - Likely energy use (supply and demand) scenarios facing Australia over the next decade and possible policy issues to be addressed;
 - Existing and potential gas and electricity market regulatory structures and institutional mechanisms, including the extent to which they facilitate an efficient and competitive energy sector with adequate investment and benefits to users;
 - The potential for harmonising regulatory arrangements, removing inconsistencies and integrating networks;
 - Opportunities for and impediments to increasing interconnection and system security in gas and electricity; and
 - Ways of accelerating the delivery of improved consumer choice, providing better information and enhancing cooperative energy efficiency activities and decision making for demand side participation.

NEM MINISTERS' FORUM

Introduction

The objectives for the National Electricity Market (NEM) were established under the COAG microeconomic reform initiative of 1994, with NEM institutions being established following commitments by all Australian Governments to National Competition Policy in 1995. Within this framework, NSW, Victoria, Queensland, South Australia and the ACT are participating jurisdictional NEM members and Ministers from those jurisdictions have specific policy responsibilities in relation to the NEM.

Ministers from NEM jurisdictions have agreed to establish a policy Forum to consider issues of governance and market development. In doing so they have invited the relevant Ministers from the Commonwealth and Tasmania to participate in the NEM Ministers' Forum.

NEM Ministers' Forum Objectives

- To coordinate and oversight policy development on matters dealing with the governance, market development and system security and reliability of the NEM;
- To provide a forum where matters of mutual interest can be discussed between the participating jurisdictions and with the Commonwealth and Tasmania; and
- To ensure a high level of policy stability and predictability in the market and the National Electricity Code to provide a secure basis for investment decision-making.

Priority Tasks

As part of its consideration of energy policy, COAG requested the NEM Ministers' Forum, in the context of the COAG agreements to establish a NEM, to give urgent attention to examining the following priority NEM issues, and to report to members of COAG out-of-session on key approaches and timetables for these priority tasks following the Forum's first meeting:

- impediments to investment in interconnection;
- transmission pricing;
- improved integration of transmission networks;
- reducing regulatory overlap and institutional inefficiencies;
- market behaviour (eg rebidding);
- demand side participation; and
- oversight of the NECA report on the operation of the National Electricity Code.

COAG ENERGY REVIEW TERMS OF REFERENCE

Introduction

All Governments recognise that effective operation of an open and competitive national energy market is central to improved economic and environmental performance, and to delivering benefits to households, small business and industry, including in regional areas. Governments also recognise there must be a focus on strategic issues affecting Australia's energy future, and the capacity of the market and institutions to respond to future challenges and international developments. A review would identify the strategic issues for Australian energy markets and the policies required from Commonwealth, State and Territory Governments to allow further market development to focus on areas likely to generate the most significant benefits, including the wider penetration and uptake of natural gas.

Proposed Issues

The review will be a forward-looking, strategic study to facilitate decision-making by Governments. Without limiting the conduct or scope of the review, priority issues for consideration will be:

1. Identifying any impediments to the full realisation of the benefits of energy market reform;
2. Identifying strategic directions for further energy market reform;
3. Examining regulatory approaches that effectively balance incentives for new supply investment, demand responses and benefits to consumers;
4. Assessing the potential for regions and small business to benefit from energy market development;
5. Assessing the relative efficiency and cost effectiveness of options within the energy market to reduce greenhouse gas emissions from the electricity and gas sectors, including the feasibility of a phased introduction of a national system of greenhouse emission reduction benchmarks; and
6. Identifying means of encouraging the wider penetration of natural gas including increased upstream gas competition, value adding processes for natural gas and potential other uses such as distributed generation, because it is an abundant, domestically available and clean energy resource.

Proposed Review Process

The review will not duplicate, and should take account of the recommendations of recent or soon-to-be completed independent national reviews of any aspect of these issues. The review will be undertaken by a three-person expert panel. The panel Chair will be selected by the Commonwealth and its other members will be agreed by Commonwealth, State and Territory Governments. It is expected that the review will take around 12 months from commencement. Review processes will be overseen by the Ministerial Council on Energy and the final review report will be provided to members of COAG through the Ministerial Council on Energy.