

The Review Panel  
Review of Governance Arrangements for Australian Energy Markets  
COAG Energy Council Secretariat  
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**Re: Review of Governance Arrangements for Australian Energy Markets**

Dear Review Panel

The Energy Efficiency Council (EEC) welcomes the opportunity to comment on the Draft Report of the Review of Governance Arrangements for Australian Energy Markets (referred to as 'the Draft Report').

The EEC is the peak body for experts in energy efficiency, demand-management and cogeneration. Our members include energy efficiency experts, utilities and governments, and we have been heavily involved in recent debates around energy markets.

The governance of the East Coast electricity market has a number of problems that include:

- Consumers are still not at the heart of regulatory processes. The views of consumers and emerging market participants are often not given due attention (partly because of the cost of informed participation) and Australian consumers lack the formal powers that they have in other jurisdictions (e.g. to negotiate with network companies on planned investments and tariffs).
- A lack of diversity in the experience of regulators and other key agencies, with key knowledge gaps around consumer perspectives and demand-side issues. The lack of demand-side expertise has caused major issues, such as the failure to plan for a drop in electricity demand despite it being anticipated by several demand-side experts. More recently, the AER opposed Network Service Providers investing in demand-side projects, despite the fact that these projects would cut overall expenditure.
- A lack of willingness to actively regulate network service providers. The EEC supports the Draft Report's statement that there are still cultural and skill issues at the AER, although we note that the new Chair has improved the culture of the AER. Furthermore, these problems in regulatory culture extend well beyond the AER.
- Regulatory inertia, caused partly by governance structures and partly by staffing and cultural issues amongst a range of organisations. This is particularly serious given that technologies, services and consumer preferences are evolving so rapidly. The EEC notes that the need for multi-jurisdictional agreement is a fundamental challenge for rapid energy reform in Australia, but this simply accentuates the need for aggressive reforms to regulatory bodies and processes.

These problems have had serious impacts on the National Electricity Objective (NEO). Electricity network charges have risen faster in Australia than almost any comparable jurisdiction over the past 5 years, and recent changes in network tariffs (such as higher fixed charges) will impede the efficient adaptation of the energy sector in future years.

Governance problems have most seriously affected electricity network regulation, but also have other impacts. While the wholesale electricity market has, overall, been performing well, there have been serious delays introducing the Demand Side Mechanism and the other reforms that are necessary to develop new service models.

While recent rule changes from the Australian Energy Market Commission (AEMC) and staffing changes at the Australian Energy Regulator (AER) have ameliorated these issues, they have by no means fully addressed them.

The EEC recommends a number of changes to improve governance in the NEM. The EEC:

- Supports the Draft Report's proposal to increase the membership of the AEMC and AER to five individuals to increase diversity and deal with rising workloads.
- Recommends that the membership of the AEMC, AER and the board of the Australian Energy Market Operator (AEMO) include at least one individual with demand-side experience. This is critical as there are strong interactions between the markets for electricity and demand-side services and products, and distortions in either market can impact on the other.
- Supports the Draft Report's proposal to separate the AER from the Australian Competition and Consumer Commission (ACCC) to address cultural issues, but notes that on its own this will be insufficient and the AER will need a dedicated focus on refreshing its staff with overseas experts and demand-side experts.
- Recommends reviewing AEMO and its multiple committees in detail, focusing on minimising conflicts of interest and ensuring that its advice is independent. The EEC notes that AEMO is ultimately funded by energy consumers, and it is critical that the board and staff of AEMO are appointed to support consumer interests and foster, rather than inhibit, the development of new markets and service providers.
- Recommends that the Review Panel respond in more detail to the issues raised by the Public Interest Advocacy Centre (PIAC). While the EEO does not have a position all these positions (e.g. reviewing the NEO and moving to an Ofgem-style model) we believe that PIAC has raised real issues that were not given sufficient attention in the Draft Report. We believe that there is merit in responding to these in detail.
- Recommends that funding be increased to a range of consumer bodies, not just Energy Consumers Australia. The time and cost to hire, develop and deploy consumer representatives with sufficient skills to engage in regulatory processes significantly limits consumer engagement in rule changes and regulatory reviews. Increasing the number and diversity of informed consumer representatives will significantly strengthen governance.

We look forward to continuing to engage in the Review. For further information please contact me on [rob.murray-leach@eec.org.au](mailto:rob.murray-leach@eec.org.au) or 0414 065 556.

Yours sincerely



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