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ENERGY
REGULATOR

The role of the AER

Mark Wilson - November 2007

Overview

- Regulatory arrangements
  - the role of the Regulator
  - the recent and pending reforms
  - the NEM
- Market outcomes
  - current and future
  - impacts of additional renewable targets or carbon trading

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Regulatory structure (post reform)

	NSW	Vic	SA	QLD	ACT	Tas	NT	WA
Retail Pricing	IPART	ESC	ESC	Office of Energy	ICRC	OTTER/ GPOC	UC	ERA
Retail	Australian Energy Regulator (AER) (including NEM and Gas Code regulation)						UC	ERA
Distribution								
Transmission								
Wholesale								
Competition Regulation	Australian Competition and Consumer Commission (ACCC)							

Rule Changes	Australian Energy Market Commission (AEMC)	**AEMC**	**AEMC**

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Key energy legislation

National **E**lectricity **L**aw	**N**ational **E**lectricity **R**ules
National **G**as **L**aw	**N**ational **G**as **R**ules
•*high level* •*altered by parliament*	•*low level* •*altered by AEMC upon application*

Enforcement through the courts

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Role of the AER

- Now:
  - electricity transmission
  - National Electricity Market monitoring
  - National Electricity Law enforcement
- Early 2008: **add networks**
  - gas transmission
  - electricity and gas distribution
- Late 2008: **add retail**
  - consumer protection, retailer of last resort etc
  - retail price regulation (discretion of jurisdiction)

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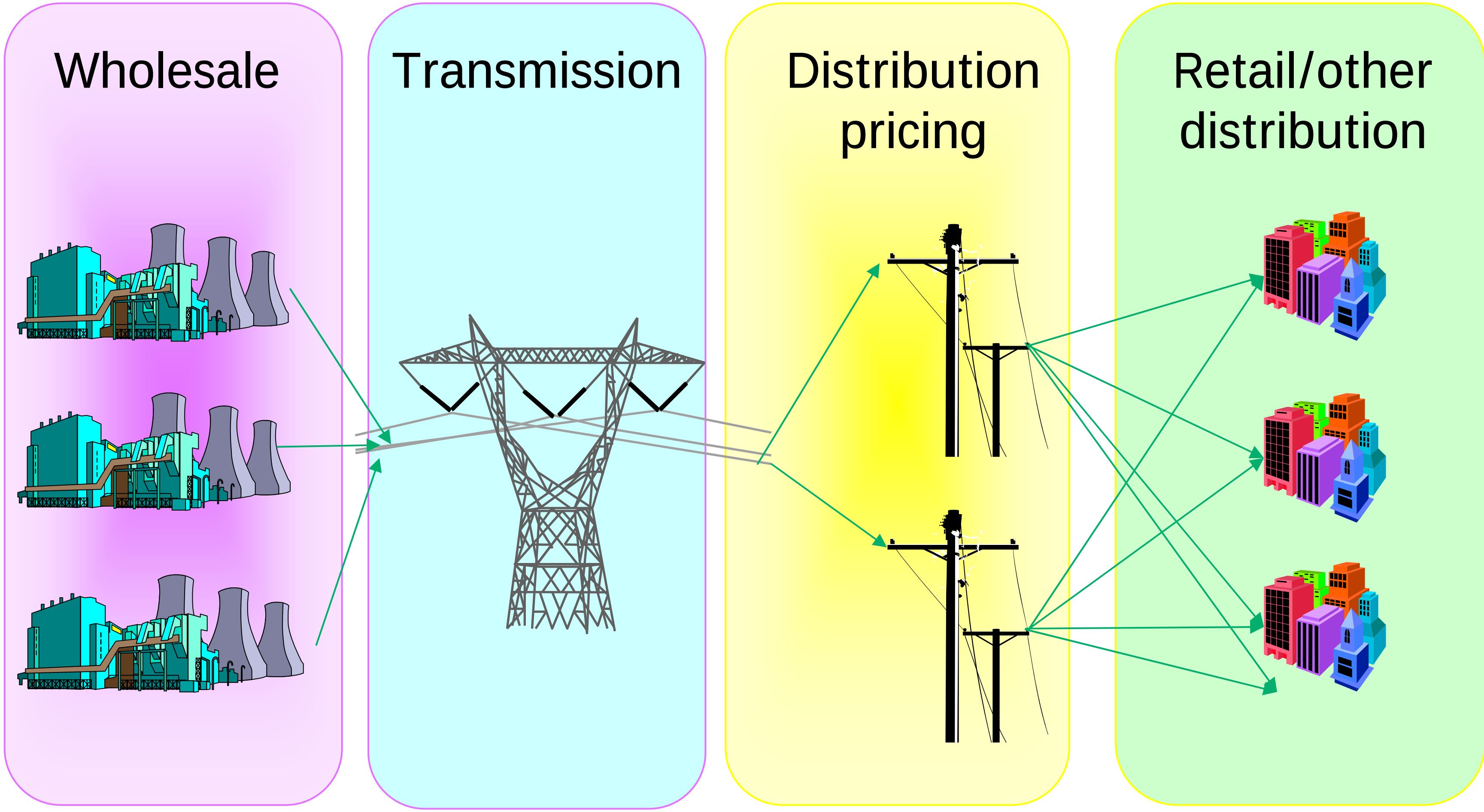
AER's role in electricity



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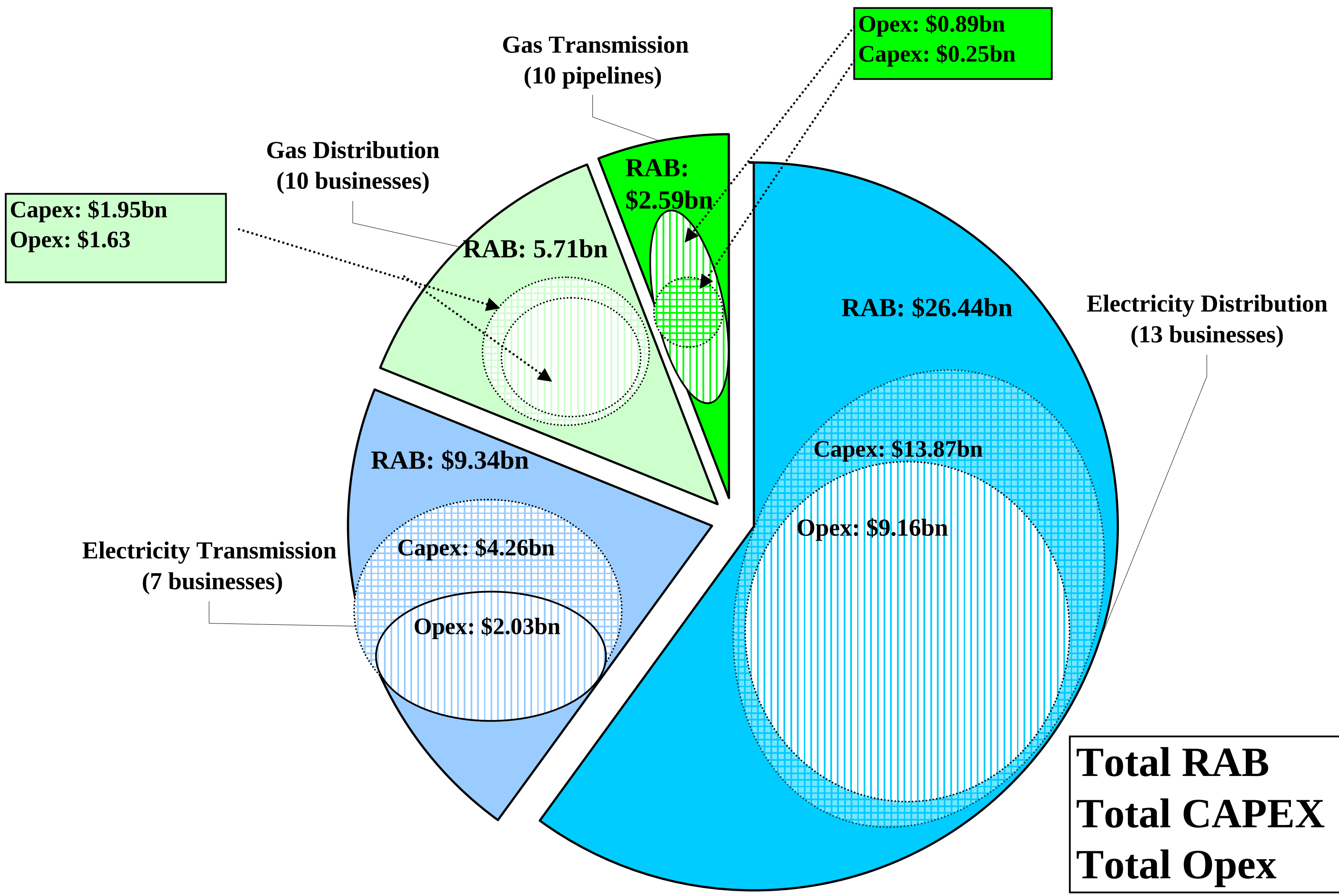
Value of regulated sectors

Total opening RAB $billions (regulated businesses) by Sector



Total RAB	$44.08bn
Total CAPEX	$20.33bn
Total Opex	$13.72bn

Electricity transmission regulation

- revenue capped
- annual revenue based on “building blocks”
  - operating costs
  - asset depreciation costs
  - taxation liabilities
  - a commercial return on capital
- 5 year regulatory periods
- considers individual businesses
- incentive mechanisms
  - efficient investment and OPEX
  - service standards to ensure service quality

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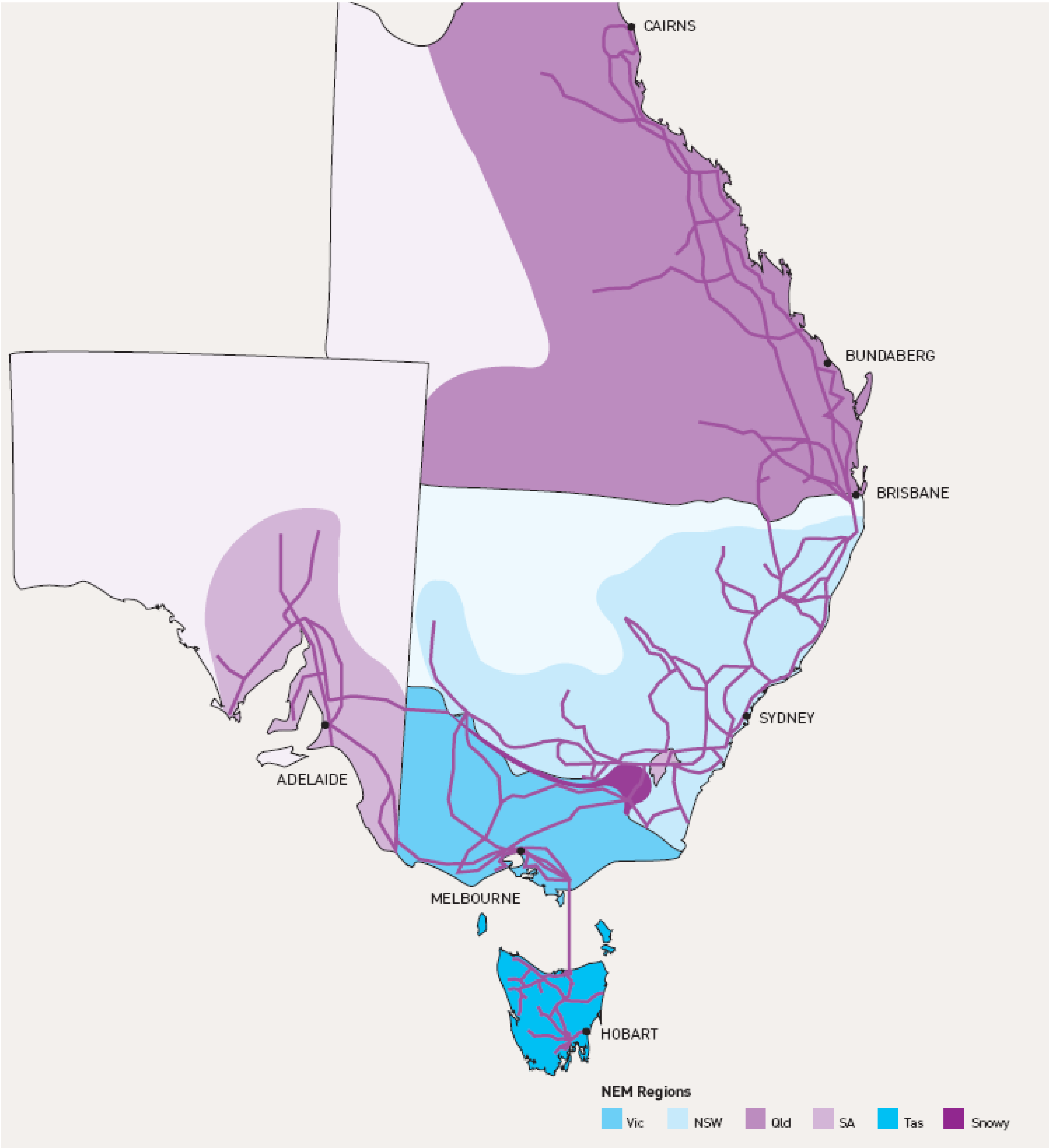
Transmission investment

- network augmentations assessed through the regulatory test
  - published by the AER in November
  - reliability standards or market benefits
- new generators required to pay connection costs
  - new transmission lines to the site
  - reinforcement to existing shared network.
- customers pay for shared network
- pricing
  - outlined in chapter 6A of the NER
  - methodology guidelines published by the AER in October



The NEM

- energy-only "gross" real-time market
- regional pricing model
- 5-minute security constrained dispatch
  - real-time offers
  - 8 FCAS markets
  - constraints
  - 30-minute pricing
  - settled weekly
- self commitment by generators

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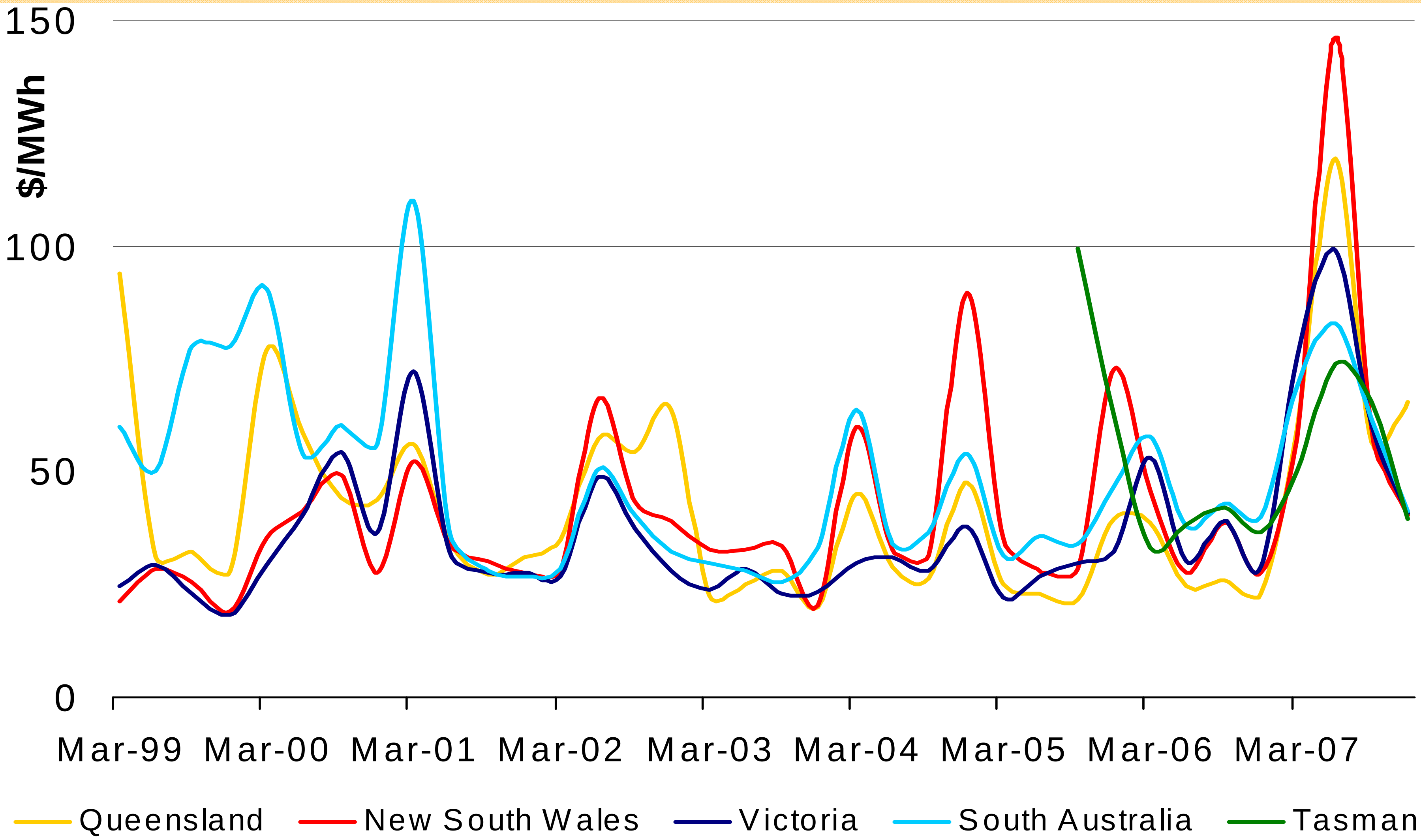
Generator obligations

- connection process
- power system security
  - technical standards
- reliability process
  - information for NEMMCO's PASA
- market related
  - bidding
  - following dispatch instructions

Market outcomes

- historical prices
- future contract prices
- the price drivers
- new generation
- impacts of additional renewable targets or carbon trading

Market prices



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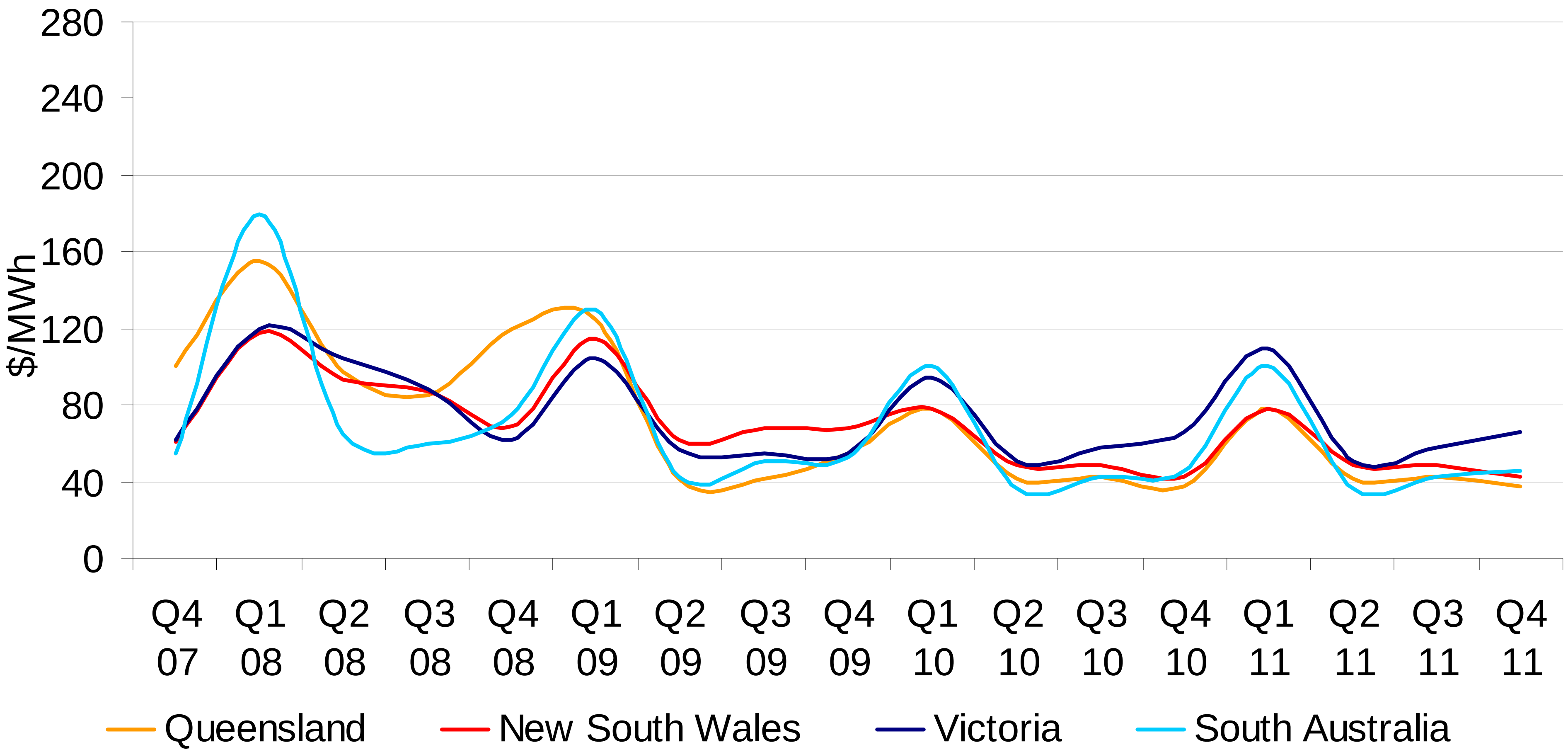
Futures contracts - peak



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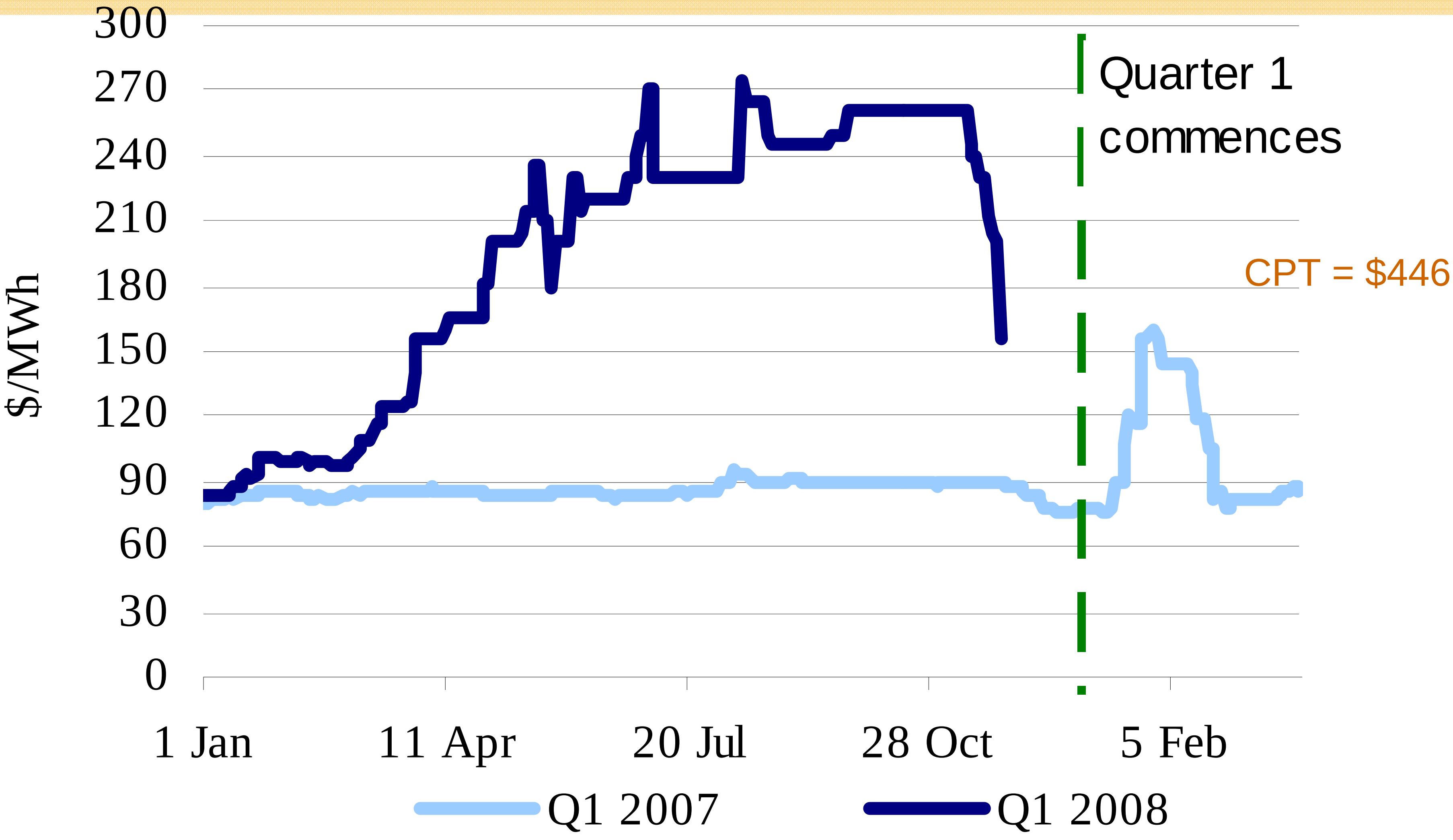
Qld 2008 Q1 peak



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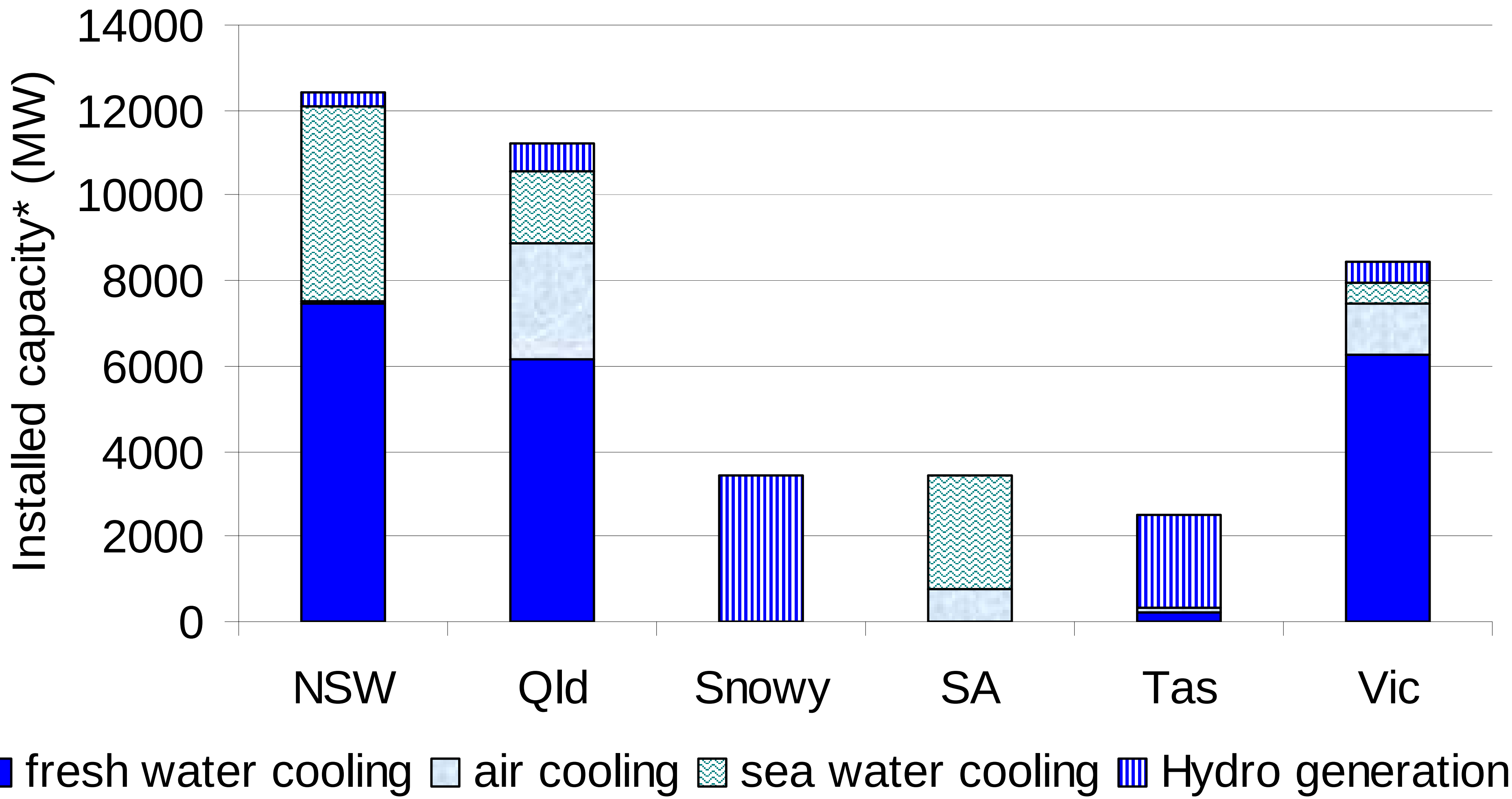
Generator cooling types

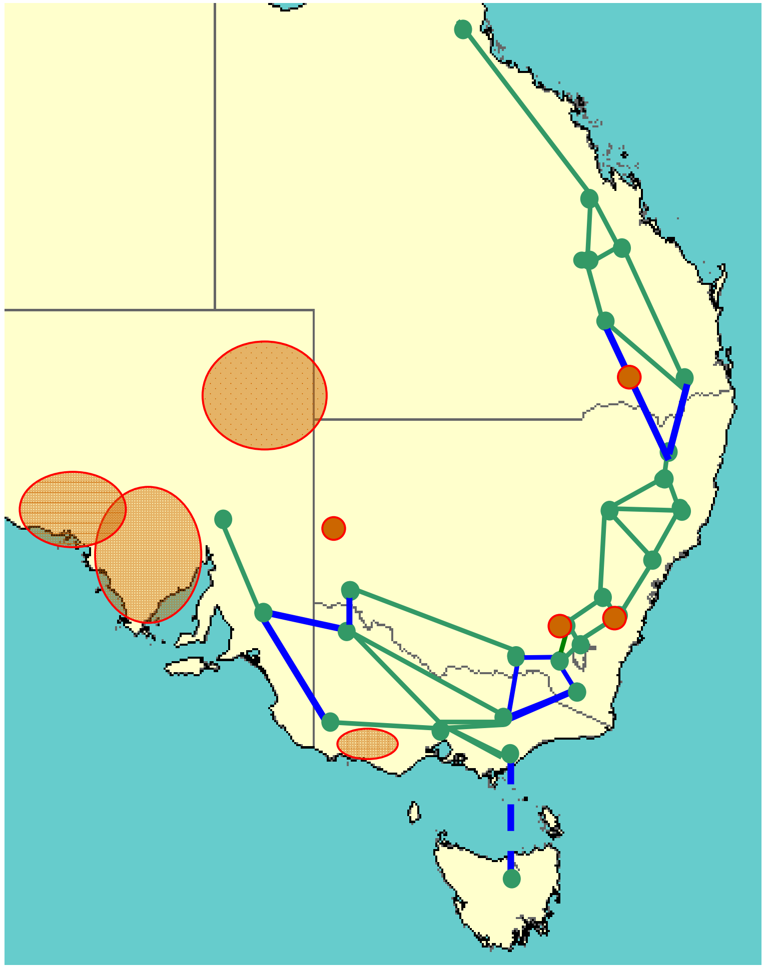


What are the drivers?

- impacts of the drought on generation
  - Qld coal (4 Tarong units now available)
  - Snowy
  - Vic hydro (not currently for coal)
  - NSW coal (decreasing impacts)
- network constraints
  - SW Qld and CQ-SQ plus QNI

New generation locations

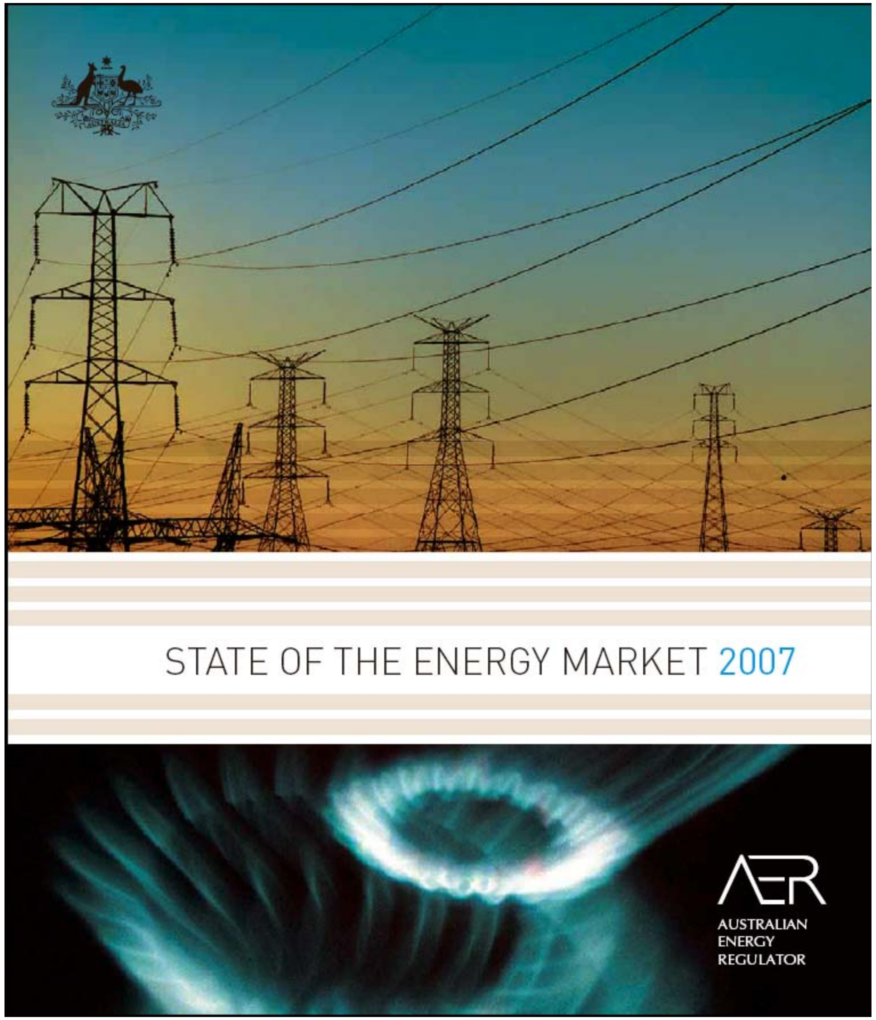
- Uranquinty (700MW)
- Darling Downs (650MW CCGT) + others
- Tallawarra (400MW) + Colongra (670MW)
- Wind
  - – Broken Hill (1000MW)
- Geothermal



Increased renewable targets

- the price will be impacted
- power system security and/or reliability may be impacted

State of the Energy Market



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Questions?