

Inside the ACCC

The Australian Energy Regulator (AER) is Australia's independent national energy market regulator. The AER, which began operation in 2005, is an independent statutory authority and part of the ACCC. It regulates electricity networks and gas pipelines in southern and eastern Australia, enforces energy market law and monitors wholesale energy markets. The AER will also take on a number of roles in retail energy markets under new legislation expected to be introduced in 2010.

A RELIABLE SUPPLY of energy is essential to modern life. While power blackouts are rare, they remind us of how much we rely on electricity when we turn on a light or appliance. Parts of Australia also rely on natural gas for essential services such as cooking and heating.

The energy industry requires a substantial amount of new investment each year to maintain a high level of service. It is important that an independent body apply consistent rules to ensure there is adequate investment to maintain reliable supply. At the same time, it is important that consumers pay a fair price for electricity and gas. The Commonwealth and the states and territories set up a national body—the AER—to monitor these things in an independent and consistent way.

The supply of electricity begins with *generation* in power stations (Figure 1).

The bulk of Australia's electricity is produced from

The AER investigates all cases of irregular market activity and high prices.

coal-fired generators, but new investment in the past decade has increasingly turned to gas and wind as energy sources. Electricity is transported to households via power lines. High-voltage transmission lines move electricity to the outskirts of cities and towns, where it is converted to lower voltages and transported to households along suburban distribution networks.

The supply of natural gas follows a similar chain, with pipelines shipping gas from gas production facilities to customers (Figure 2).

The AER does not control wholesale energy prices.

In electricity, these prices are determined through supply and demand in a spot market—in

much the same way as share prices are determined on the stock exchange—and can fluctuate from hour to hour. Victoria has similar market arrangements in gas. New South Wales and South Australia are introducing spot markets for wholesale gas in 2010.

While the AER does not control wholesale prices, it monitors the markets to ensure they are behaving as they should. The wholesale markets are set up to be competitive, but under certain conditions a generator may be able to push prices very high. This sometimes happens on very hot days, when the use of air conditioners drives high demand for electricity.

The AER investigates all cases of irregular market activity and high prices. It conducts regular audits of generators and network businesses and takes enforcement action if there is evidence of a potential breach of the energy laws that may harm consumers or threaten

system security. For example, the AER instigated proceedings against a Queensland generator in the Federal Court in 2009.

One of the AER's most demanding roles is to approve the prices that electricity network businesses may charge for the use of power lines that are needed to move electricity to customers. The AER undertakes a similar role for gas pipelines.

It is important that an independent regulator scrutinise network prices because the businesses are monopolies that could otherwise charge unnecessarily high prices for an essential service. The AER aims to ensure the businesses earn enough revenue to cover their efficient operating costs and provide for adequate new investment to maintain the networks' safe and reliable operation.

The supply chain for both electricity and gas is completed by *retailers* such as AGL, Origin,

Figure 1

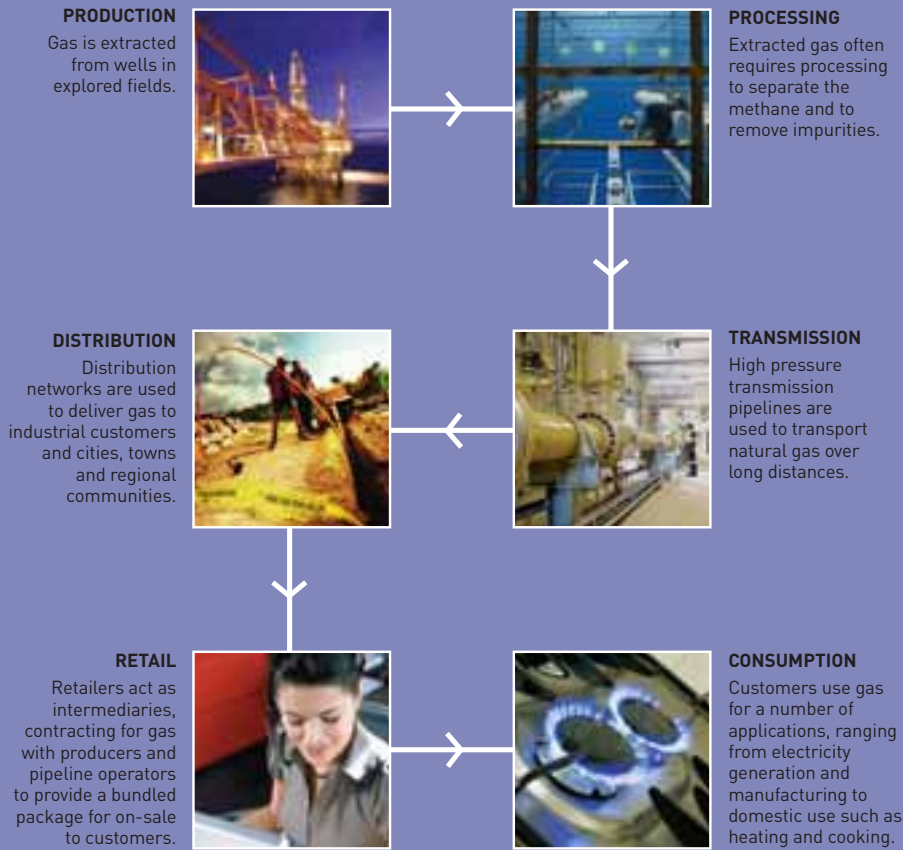
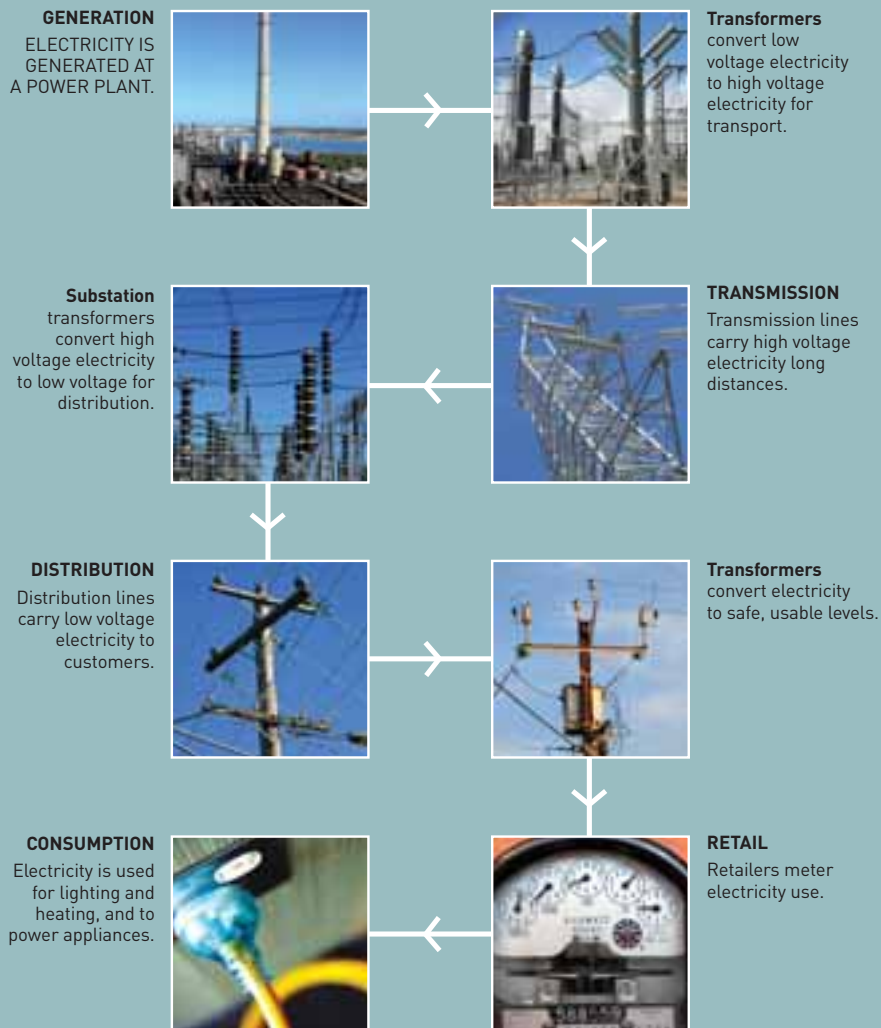


Figure 1 images: Consumption, Jessica Shapiro (Fairfaxphotos); Other, Mark Wilson.

Figure 2 images: Production, Woodside; Processing, Matthias Kulka (Corbis); Transmission, Jemena; Retail, Sadie Dayton (Corbis); Consumption, Vito Elefante (iStockphoto.com).

Figure 2



EnergyAustralia, Country Energy, Integral, TRUenergy and Simply Energy. Retailers buy wholesale energy and package it with transmission and distribution services for sale to customers. The prices households pay for energy reflect the costs retailers must pay for network charges and wholesale energy. Australian households spend over \$13 billion a year on energy services.

The AER does not regulate retail energy markets, but new legislation is likely to give the AER a range of retail responsibilities in the near future, including consumer protection.

The AER publishes an annual report on the energy market in December each year. The *State of the energy market 2009* report (Figure 3) is available on the AER website at www.aer.gov.au. You can call the ACCC Infocentre on 1300 302 502 to inquire about obtaining printed copies of the report.