



Australian Government

Australian Government response to the
Environment and Communications References Committee
report:

Performance and management of electricity network
companies

April 2016

INTRODUCTION

The inquiry into the performance and management of electricity network companies (the Inquiry) was initiated in response to community concerns regarding rising electricity prices and the role of electricity network businesses in contributing to those increases.

The Senate referred the Inquiry to the Environment and Communications References Committee (the Committee) on 2 October 2014, with terms of reference to address these and related issues. The Committee presented an interim report on 20 April 2015 and its final report on 5 June 2015.

The Australian Government thanks the Committee for its work and all individuals and organisations who contributed to the Inquiry.

The Australian Government has been working over the past 20 years with state and territory governments, through the Council of Australian Governments (COAG), to progress energy market reforms aimed at promoting efficient investment in, and efficient operation and use of, electricity services which serve the long term interests of consumers by maintaining the reliability, safety and security of the national electricity system.

A number of recent reforms made by the COAG Energy Council directly address themes emerging from the Inquiry. These reforms include:

- Changes to the National Electricity Rules (introduced in 2012), which significantly strengthen the Australian Energy Regulator's (AER) ability to interrogate network businesses' regulatory proposals and provide expanded opportunities for consumers to participate in the process for setting expenditure allowances.
- Reforms to network pricing principles that require networks to introduce cost reflective tariffs by 2017, thereby providing better price signals to consumers and lowering the overall costs of the system.
- Reforms to expand competition in metering and related services by 2017, which will enable a market-led deployment of advanced meters and development of a range of innovative services to support better grid management and help customers manage their bills.
- The establishment of Energy Consumers Australia on 30 January 2015 which provides a national voice for consumers.

The positive impacts of some of these reforms are already being seen with others still to be fully realised.

Governments are also working to support the introduction of network tariff reform, which is crucial to influencing consumer behaviours that minimise network costs and support efficient network utilisation. This includes improving consumer understanding of tariff reform and ensuring that consumer protections are appropriate.

Further detail on these and other reforms is provided below and in responses to specific recommendations from the Inquiry.

Recognising the transformation currently occurring in energy markets, the COAG Energy Council agreed in December 2015 to a Strategic Work Programme to ensure regulatory frameworks are appropriate for emerging technologies and enable customers to benefit from innovative services. This work programme commenced in early 2016.

The Council further agreed to a national, cooperative effort to better integrate energy and climate change policy, with a clear focus on ensuring that consumers and industry have access to low-cost, reliable energy as Australia moves towards a low emissions economy.

More broadly, the Energy White Paper released in 2015 sets out the Australian Government's goals to increase energy competition, productivity and investment. As part of the implementation of the White Paper, the COAG Energy Council has adopted the National Energy Productivity Plan 2015-30 focused on delivering greater value for Australia's energy use. Electricity productivity improvements targeted through the Plan will help reduce household and business electricity costs and encourage economic growth.

The Australian Government's response to the Committee's recommendations made in the Interim Report

Recommendation 1

4.75 The committee recommends that the Council of Australian Governments (COAG) Energy Council commission an independent expert review of options for excluding future imprudent capital expenditure and surplus network assets from a network service provider's regulatory asset base (RAB). This review should consider the provisions of the Western Australian Electricity Networks Access Code and its decision-making criteria.

4.76 The review should have the freedom to suggest any necessary changes to intergovernmental agreements, the National Electricity Law or the National Electricity Rules.

Additional comments from Coalition Senators

1.1 In reference to Recommendation 1, Coalition Senators further recommend that the review also consider options for excluding current—as well as future—imprudent capital expenditure from a network service provider's regulatory asset base (RAB).

The Australian Government notes the recommendation.

Policy advice to the COAG Energy Council in July 2015 (*Electricity network economic regulation: scenario analysis*, available at <http://www.scer.gov.au/publications/strategic-assessment-network-regulation>), noted that future scenarios where there are large numbers of customers with embedded generation and storage, or completely disconnected from the grid, present a greater risk of asset stranding and under-utilisation, which consumers ultimately pay for under the current arrangements. At the December 2015 COAG Energy Council meeting, Ministers agreed to a Strategic Work Programme which includes examining the effectiveness of existing regulatory frameworks in driving efficient network investment and operational decisions. A key objective of the Programme is to ensure that consumers are able to benefit from decentralised supply options, while mitigating risks.

The Australian Government notes that the Western Australian Government is looking at transferring responsibility for regulating its network businesses to the AER. This would mean the AER would be responsible for setting Western Power's revenues in line with the National Electricity Rules.

Recommendation 2

4.77 The committee recommends that, following the outcomes of the current round of network pricing decisions, the COAG Energy Council commission an independent expert review of the efficacy of recent changes to the National Electricity Rules and the benchmarking process in promoting the long-term interests of consumers. This assessment should focus on the appropriateness of current methodologies for calculating the weighted average cost of capital (WACC) and the manner in which the estimated cost of corporate income tax is calculated.

The Australian Government notes the recommendation and considers it is adequately addressed by processes in place.

The rate of return guidelines were released by the AER in December 2013 after changes to the National Electricity Rules in 2012 and extensive consultation. The AER must undertake a full public review of these guidelines by December 2016, which will allow any new evidence or techniques to be considered and reflected in the AER's guidelines. The AER will also seek to refine its benchmarking tools. Benchmarking will be strengthened by a law change confirming the AER's information gathering powers to collect and publish the data necessary to compare the performance of network businesses.

The incentive-based approach used by the AER in setting allowances for both the cost of capital and corporate income tax is based on what costs an efficient organisation would incur in providing regulated network services and is not intended to reflect each cost component incurred by individual businesses. Actual costs will vary from amounts allowed for by the regulator as networks are free to choose the manner in which they deliver the services and organise their corporate and debt structures.

The AER will continue to review the operation of the Rules in practice to ensure that they are able to contribute to the delivery of the National Electricity Objective.

The Australian Government notes that broader issues of tax avoidance and minimisation are being considered through other processes, including the Taxation White Paper and the inquiry into corporate tax avoidance undertaken by the Senate Economics References Committee.

Recommendation 3

4.78 The committee recommends that the National Electricity Rules be amended to provide that the Australian Energy Regulator may set a regulatory control period that is less than five regulatory years.

The Australian Government notes the recommendation.

The Australian Government recognises that in determining the appropriate length of a regulatory period a number of factors need to be considered, including the potential for greater certainty around electricity trends through a shorter regulatory period against an increase in investor certainty (which gets passed through to consumers as a lower rate of return on the RAB) associated with a longer regulatory period. In light of a balanced assessment of these factors, the COAG Energy Council's predecessor, the Ministerial Council on Energy, determined that a five year regulatory period provides a sufficiently short time to respond to changing conditions while providing investment certainty.

However, there remains a broader question about the appropriateness of prescriptive features of the regulatory framework for electricity networks in future scenarios where demand and technology trends are less certain. Officials are exploring these issues as part of the Strategic Work Programme agreed by the COAG Energy Council in December 2015 and will provide advice to Ministers.

Recommendation 4

5.44 The committee recommends that state governments seeking to privatise their electricity network assets examine whether those assets are overvalued and if the regulatory asset base should be written down prior to privatisation.

Additional comments from Coalition Senators

1.2 Coalition Senators further consider that state governments should be accountable for the value of state-owned networks. Responsible ministers should endorse values determined for state-owned networks by the AER.

The Australian Government notes the recommendation but considers that the value of network assets being privatised is a matter for the relevant state governments.

Recommendation 5

6.67 The committee recommends that the National Electricity Rules be amended to cap the costs associated with the preparation of a regulatory proposal that a network service provider may recover from its customers.

The Australian Government notes the recommendation.

The Australian Government also notes the concerns raised by the Committee that the regulatory proposals submitted by the network businesses are lengthy, technically detailed, and that this complexity can make it difficult for stakeholders to assess. The Australian Government therefore intends to look into options for making submissions more accessible.

Recommendation 6

6.68 The committee recommends that the COAG Energy Council request the Australian Energy Market Commission to review the consumer engagement activities of network service providers. As part of this review, proposals for enhancing the effectiveness of consumer engagement efforts should be invited from consumer advocacy groups. Particular focus should be given to the effectiveness of consumer engagement in ensuring that network planning outcomes respond to the long-term interests of consumers.

The Australian Government notes the recommendation but considers the AER is a more appropriate body to review the consumer engagement activities of network businesses than the Australian Energy Market Commission (AEMC).

Engagement by network businesses with consumers has been enhanced through the AER's stakeholder consultation framework established as part of the 2014 Better Regulation reform programme, available at <http://www.aer.gov.au/networks-pipelines/better-regulation>. In its first year of operation Energy Consumers Australia has commenced work that will strengthen the voice of small business and residential consumers in network regulatory determinations and tariff structure statement proposals.

The consumer engagement guideline developed as part of the Better Regulation reform programme sets out the level of consumer engagement the AER expects network businesses to undertake in preparing their regulatory proposals.

In addition, Energy Consumers Australia is focussed on supporting consumer advocacy on national energy market matters of strategic importance or material consequence for energy consumers, particularly residential and small business consumers¹. Energy Consumers Australia provides a strong, coordinated, evidence based approach to consumer advocacy through in-house research and targeted funding grants which either build capacity or knowledge in energy market matters impacting consumers. This includes funding advocacy designed to persuade a third party to make a decision or change which improves the situation of electricity consumers. In the 2014/2015 financial year, Energy Consumers Australia funded the Public Interest Advocacy Centre to intervene in the review of New South Wales electricity revenue determinations before the Australian Competition Tribunal.

Recommendation 7

6.69 The committee recommends that the Australian Energy Market Commission and the Australian Energy Regulator jointly develop and publish consolidated guidance on the regulatory determination process to better inform members of the public, consumer groups and other energy user stakeholders.

The Australian Government notes the recommendation.

The AEMC and AER have developed more user-friendly guidance on rule changes and the determination processes and should continue to improve this in light of feedback. The AER's overview and fact sheets on the Better Regulation reform programme is intended to help consumers, other stakeholders and the public understand the determination process. The AER also releases summary fact sheets on its determinations for each network business.

The Australian Government considers that meaningful engagement with consumers, particularly retail consumers and small business, is better facilitated through the AER's stakeholder consultation framework established as part of the Better Regulation reform programme, and through the establishment of Energy Consumers Australia. One of Energy Consumers Australia's activities is to effectively and objectively participate in National Electricity Market issues and influence regulatory activities and energy market reform to benefit consumers; as well as undertaking robust research and educating consumers on energy markets.

Recommendation 8

7.55 The committee recommends that the Australian Energy Market Commission is provided with the ability to initiate a rule change process without being required to receive a rule change request from an external party.

The Australian Government rejects the recommendation.

The current governance arrangements were established in 2005 to provide independent market institutions, including the AEMC, with specific powers and functions under the national energy laws, and with appropriate policy oversight from the COAG Energy Council. The AEMC was established to ensure the integrity and accountability of the market development process.

¹ As per the Energy Consumers Australia objective and activities as per its constitution article 4.1 and 4.2 refers.

In setting out the AEMC's powers and functions in the National Electricity Law, it was prevented from self-initiating rule change processes (except where of a minor nature). The reason for this restriction was to minimise the risks of market development activities that would be inconsistent with the strategic direction being set by the COAG Energy Council and its predecessors.

The Australian Government notes the AEMC's role and its processes were examined as part of the Review of Governance Arrangements for Australian Energy Markets (the Governance Review). Whilst the Governance Review's final report proposed an expanded role for the AEMC in the development of strategic advice, to which the COAG Energy Council agreed in December 2015, it determined that the prohibition of the AEMC self-initiating rule changes should be maintained. The Governance Review found that allowing the AEMC to initiate rule changes would be problematic as it was inconsistent with the existing institutional functional separation and would potentially displace the COAG Energy Council's leadership.

Recommendation 9

7.56 The committee recommends that the Australian Government pursue, through the COAG process, amendments to the National Electricity Law to require that the Australian Energy Market Commission must commence public consultation on a rule change request within a prescribed period of time if the rule change request has been lodged by the COAG Energy Council.

The Australian Government rejects the recommendation.

The Government recognises that the AEMC's processes need to balance efficacy of process with providing sufficient time for rigour around decision-making. The time between the lodgement of a rule change request and the AEMC commencing its public rule change process is appropriately used by the AEMC to develop suitable material for consultation; mandating the time for this risks the incomplete examination of complex material covered by such rule change requests. The Government notes that the COAG Energy Council is able to provide direction to the AEMC about the priority of rule change requests it submits.

In response to the Governance Review, the COAG Energy Council agreed in December 2015 to changes that aim to streamline AEMC operations and better focus AEMC's resources on the priorities of the day and improving overall timeliness. A specific change to increase stakeholder engagement and to address concerns regarding timeliness is that the AEMC is now expected to publish information on timeliness performance metrics and an explanation of the timelines on its website.

The AEMC is also considering, as a strategic priority, options to improve timeliness of the rule change process without undermining features valued by stakeholders.

Recommendation 10

7.57 The committee recommends that the Australian Government pursue, through the COAG process, an agreement that any Commonwealth, state and territory energy policy schemes and measures that may have implications for the National Electricity Market or network efficiency must be referred to the Australian Energy Market Commission for formal advice regarding the likely effects on the long-term interests of consumers.

The Australian Government rejects the recommendation.

The Australian Government recognises that governments that have applied the national energy laws are already able to seek advice from the AEMC about the implications of jurisdictional reforms on the national frameworks. Further, a rationale for establishing the COAG Energy Council (and its predecessors) as a body including all state and territory governments was to allow the implications of state and territory policy on the national markets to be considered by the relevant governments.

The Australian Government considers these arrangements provide a robust starting point to make sure the implications for the national markets will be considered as part of the development of energy-related jurisdictional policy.

Recommendation 11

7.59 In light of the recommendation made by the Competition Policy Review (Harper Review) regarding a single national access and pricing regulator, the committee recommends that the Australian, state and territory governments consider:

- the potential efficiencies and other advantages of a single national access and pricing regulator; and**
- whether such a proposal would be in the long-term interests of consumers of electricity, given the need for a regulator with sufficient expertise to challenge, when required, well-resourced electricity network service providers.**

The Australian Government notes the recommendation.

As part of the response to the Competition Policy Review, the Australian Government indicated that it remained open to the recommendation for a single national access pricing regulator and that there would be continued discussions with states and territories on how a new national framework could be developed between the Commonwealth, states and territories to promote economic growth including the most appropriate institutional architecture to support reform.

Further, the COAG Energy Council agreed in its December 2015 response to the Governance review that a case has been made for the COAG Energy Council to consider changing the AER's structure. However, the COAG Energy Council indicated that more work would be required before it could make a decision on this matter.

Recommendation 12

7.63 The committee recommends that the Australian Government commission an external review of the capability of the Australian Energy Regulator. The review should consider:

- **the adequacy of the AER's financial resources;**
- **the effects of the 2014–15 budget cuts; and**
- **whether the AER has the skills and powers needed to perform its functions effectively.**

The Australian Government notes the recommendation and is committed to ensuring that the AER is able to fulfil its functions effectively.

A similar piece of work was recommended in the Governance Review as a result of which the COAG Energy Council agreed that the AER be reviewed every three to five years by a panel of experts appointed by the COAG Energy Council to assist the AER in integrating learnings and improving its performance.

The COAG Energy Council also noted several recommendations made in the Governance Review in relation to financial arrangements of the AER, particularly regarding the role of state and territory governments, through the COAG Energy Council, in determining its work programmes and resourcing requirements.

Recommendation 13

7.64 The committee recommends that the Australian Energy Regulator should facilitate public consultation on the statement of intent it develops in response to the COAG Energy Council's statement of expectations.

The Australian Government rejects the recommendation.

As noted elsewhere in this response, expanding opportunities to hear consumer views was a major focus of the reforms undertaken in 2012. Consumers now have a more prominent role in the AER's determination process.

The AER produces a statement of intent every year, which should respond to the COAG Energy Council's statement of expectations of the AER. However, there may be opportunities for the AER to obtain public feedback on its statement of intent as part of other consultation processes. For example, consultation on the statement of intent could be done together with its key performance indicators, or through its regular stakeholder surveys. The Government will raise this with the AER.

Recommendation 14

7.65 The committee recommends that the board of the Australian Energy Regulator should be reformed so that:

- **the number of board members is increased from three to five;**
- **the requirement for a Commonwealth member and two state and territory members is abolished with future appointments based solely on merit;**
- **all appointments to the board are to be made by the Commonwealth;**
- **at least one board member is required to have knowledge of, or experience in, consumer affairs in energy matters; and**
- **at least one board member has expertise in decentralized energy systems and demand management.**

The Australian Government notes the recommendation.

The Governance Review addressed the issue of the composition of the AER Board and the COAG Energy Council agreed that the membership of the AER be expanded from three to five members and that the Chairman and at least two further members be appointed on a full-time basis. Further, the COAG Energy Council agreed that all members be recommended for appointment by two-thirds of the COAG Energy Council and agreed that appointments to the AER continue to be on the basis of a publicly available statement of required skills and experience.

Recommendation 15

8.73 The committee recommends that the Australian, state and territory governments increase and prioritise efforts to ensure that networks are prepared to efficiently respond to changes in the energy market, in light of:

- **the increased uptake of small-scale solar generation;**
- **emerging energy storage technologies;**
- **the anticipation of customers going 'off-grid';**
- **the anticipation of further disruptive technologies; and**
- **the certainty of value destruction as a result of current business models.**

The Australian Government accepts the recommendation.

The COAG Energy Council agreed in December 2015 to a Strategic Work Programme to work towards successfully transitioning energy markets to a future where energy provision is more decentralised and dynamic and address specific risks and opportunities identified by officials in a stress testing exercise completed in mid-2015. The stress testing exercise assessed the economic regulatory framework's performance under different future scenarios in contributing to the delivery of the National Electricity Objective. Policy advice delivered to Ministers, as noted in the response to Recommendation One, is published on the COAG Energy Council's website and is available at <http://www.scer.gov.au/publications/strategic-assessment-network-regulation>.

As noted above, the Strategic Work Programme agreed by the COAG Energy Council in December 2015 aims to ensure regulatory frameworks are ready to cope with the effects of emerging technologies such as batteries and enable consumers to benefit from innovative services while mitigating risks. As part of this programme officials are examining issues such as how contestable markets can be facilitated in emerging technologies, the appropriateness of existing consumer protections, and the flexibility of the regulatory framework to

accommodate decentralized supply options. Work has commenced, with officials due to report back to the COAG Energy Council in the first instance at its next meeting in July 2016.

Recommendation 16

8.74 The committee recommends that, as cost-reflective network pricing is introduced, the COAG Energy Council ensure appropriate steps are taken so network companies' tariff and non-tariff based demand management programs are strengthened to assist consumers to transition to cost-reflective tariffs.

The Australian Government accepts the recommendation.

The distribution pricing rule change that will introduce more cost reflective network pricing from 2017 includes a new consumer impacts principle requiring distributors to consider the impacts on retail customers in managing the transition to cost reflective prices.

As part of new tariff structure statements (TSS) distributors are required to consult with stakeholders on their proposed tariff structures, and demonstrate to the AER how they have responded to stakeholder feedback. The new rules will limit the ability of distributors to change tariff structures contained within their TSSs during a regulatory period without consultation.

In reviewing TSSs, the AER will also consider how network companies are linking new tariff structures with their demand management programmes.

Recommendation 17

8.75 The committee recommends that the Australian Energy Regulator expedite its implementation of the current Demand Management Incentive Scheme rule change in all open network revenue determinations.

The Australian Government rejects the recommendation.

The AEMC made its final determination on the Demand Management Incentive Scheme on 20 August 2015. The Rule requires the AER to develop and publish a demand management incentive scheme and a demand management innovation allowance mechanism by 1 December 2016. The AER will then have the discretion to apply the scheme and mechanism in the next round of regulatory determinations.

In its determination, the AEMC noted that the AER will need to develop the scheme and mechanism in consultation with distributors and other stakeholders before it can be applied. It would not be appropriate to apply the new schemes part way through a regulatory period, as this may involve reopening determinations and would impose considerable costs on the AER and the affected businesses and ultimately increase costs for consumers.

Recommendation 18

8.76 The committee recommends that the COAG Energy Council remove any barriers to networks implementing cost-reflective network prices to ensure efficient use of demand management and embedded generation is rewarded.

The Australian Government notes the recommendation.

Market reforms that have been driven by the COAG Energy Council aim to remove barriers to networks implementing cost-reflective prices.

As outlined at Recommendation 16, the distribution pricing rule change made in November 2014 requires networks to introduce more cost-reflective pricing from 2017.

Facilitating upgrades to the current installed metering stock is another barrier which is being addressed. Accumulation metering, which is the most common form of metering for small customers, supports a limited range of tariff structures which are not particularly cost reflective.

The AEMC made a final determination for the rule change to expand competition in metering and related services in November 2015. This rule change enables a market-led deployment of advanced meters where there is an active customer choice or a positive business case, and when meters need to be replaced for operational reasons. It will ensure there is capability in these new meters to support more cost-reflective tariff structures and innovative energy services to enable consumers to manage their bills. These new arrangements will take effect on 1 December 2017.

Cost reflective pricing will complement the Demand Management Incentive Scheme, and existing non-tariff based demand management programmes available to networks. By improving price signals to consumers, cost reflective pricing should also support retailers and other service providers to offer demand management products, such as in home energy management systems, which help customers to manage their bills.

The Australian Government's response to the Australian Greens' recommendations made in the Interim Report

Recommendation 1

1.13 NSW and Queensland network companies should not be privatised. However, publicly owned networks should be prevented from participating in the AER Pricing Determination processes. The costs that are ultimately passed on to households and businesses must be approved by the relevant State Minister.

The Australian Government rejects the recommendation.

Privatisation of electricity networks is a matter for the relevant state government. However, the Australian Government considers that privatisation delivers a range of benefits, including a more rigorous approach to the timing and size of investment decisions and removing potential conflict between being an asset owner and setting the regulations that govern the revenue that asset receives.

The AER determination process is the same for state-owned and privatised network companies. This is consistent with competitive neutrality principles agreed by the Australian Government and all state and territory governments. As a principle, competitive neutrality should ensure businesses are treated in the same way regardless of ownership to promote the efficient use of resources in public sector business activities by removing any advantage that businesses may have solely as a result of public ownership.

As part of the application of the competitive neutrality principles to network companies, for significant government businesses, governments undertook to adopt a corporatisation model where appropriate and to impose on the business full taxes or tax equivalents and debt guarantee fees to offset advantages from government guarantees, and to apply to the business regulations normally applying to private sector businesses.

Recommendation 2

1.22 That the Australian Energy Regulator be given the power to revalue the regulated asset base of network service providers.

The Australian Government rejects the recommendation.

Revaluations of the RAB are not provided for under the current framework. Provisions introduced as part of the 2012 changes relate to new capex being incorporated into the RAB, as opposed to revaluations of assets once incorporated into the RAB.

The Strategic Assessment of Network Regulation report recommended assessing whether the current frameworks appropriately allocate the risk of network under-utilisation and asset stranding associated with investments in the RAB between network businesses and consumers. Officials are exploring these issues as part of the COAG Energy Council agreed Strategic Work Programme in December 2015 and will provide advice to Ministers.

Recommendation 3

1.30 That the objectives in the National Electricity Market laws include an environmental objective that would require the National Electricity Market to facilitate achievement of the UNFCCC Greenhouse Gas Emissions targets agreed to by Australia. A new object would inform rule making and co-ordinate Australia's efforts to reduce emissions in the electricity sector at the same time as guaranteeing a secure supply of electricity in an affordable way.

The Australian Government rejects the recommendation.

The National Electricity Objective contained in the National Electricity Law is ‘to promote efficient investment in, and efficient operation of, electricity services for the long term interests of consumers of electricity...’

The Australian Government believes that the objective as defined remains appropriate to current and future policy needs and provides a robust basis for market regulation and development. The core objective and operating principle – ensuring that markets operate in the long-term interests of consumers – allows a broad range of interests to be taken into account and provides enough scope for effective interfaces between energy markets and other policy frameworks. Making changes to the objective would risk introducing unnecessary complexity and potential confusion for the market operator, the regulator and participants.

The COAG Energy Council has agreed that the energy sector needs to play a major role in Australia's effort to reduce greenhouse gas emissions and that the Council has a central role in ensuring that policies to reduce emissions in the energy sector are efficient and effective. In December 2015, the Council agreed to a national, cooperative effort to better integrate energy and climate policy, with a clear focus on ensuring that consumers and industry have access to low-cost, reliable energy as Australia moves towards a low emissions economy. The Council has further tasked officials with preparing advice that will allow it to better understand the potential effect of climate change policies on the energy sector to facilitate better integration. In December 2015, as one of the first steps, the Council adopted the National Energy Productivity Plan 2015-2030 to help deliver greater value from Australia's energy use.

Recommendation 4

1.33 In light of the recommendation made by the Competition Policy Review (Harper Review) regarding a single national access and pricing regulator, and in light of the committee's concerns about the current institutional arrangements the committee recommends that the Australian Energy Market Commission and the Australian Energy Regulator be collapsed into a single body.

The Australian Government rejects the recommendation.

The separation of the AER and AEMC is a key structural attribute of the governance of the energy market. In addition to the Competition Policy Review, the relationship between the AER and AEMC and assignment of roles has been examined in the Governance Review, which noted that the AER and the AEMC carry out fundamentally different roles that require different skills and expertise. It further noted that the separation of rule-making and rule-enforcement functions was an important factor in establishing credibility with investors and providing them with the confidence to invest in the sector.

The Australian Government remains open to the Competition Policy Review recommendation regarding a single national access and pricing regulator and will continue discussions with states and territories on how a new national framework could be developed between the Commonwealth, states and territories to promote economic growth, including the most appropriate institutional architecture to support reform.

The Australian Government's response to the Committee's recommendations made in the Final Report

Recommendation 1

2.66 The committee recommends that the Queensland Government request the Queensland Auditor-General to conduct a performance audit of financial risk management practices at Energex.

The Australian Government notes the recommendation.

This is a matter for the Queensland Government.

The Australian Government's response to the Australian Greens' recommendations made the Final Report

Recommendation 1

1.2 That, in addition to the Queensland Auditor-General, the Australian Securities and Investments Commission, the Australian Federal Police and the Queensland Crime and Corruption Commission be informed of Ms Cally Wilson's allegations.

The Australian Government notes the recommendation.

Any party is able to refer matters to the Queensland Auditor-General, the Australian Securities and Investments Commission, the Australian Federal Police and the Queensland Crime and Corruption Commission.