

# *Lessons from Australia's reform and privatisation of energy assets*

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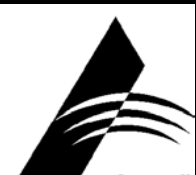
# *Structural Reform*

- Breaking up of vertically integrated government owned monopoly businesses
- Some horizontal disaggregation eg. competing generators, rather than one govt entity
- Privatisation in some States



# *NEM Development Process*

- Industry Commission Report:  
Energy Generation and Distribution -  
recommended a major restructure of the  
electricity industry.
- In response the Heads of Governments  
(COAG) established the National Grid  
Management Council (NGMC)



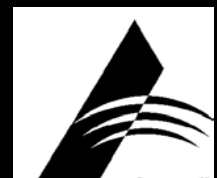
# *NEM Development Process*

- COAG Objectives for Electricity Reform:
  - freedom of choice for electricity buyers;
  - non-discriminatory access to transmission and distribution networks;
  - no discriminatory legislative or regulatory barriers to entry for new participants in electricity generation or retail supply; and
  - no barriers to interstate and/or intrastate trade.



# *National Electricity Code*

- The Code covers wholesale market operation including requirements for :
  - market participation;
  - bidding and dispatch;
  - system security and reliability;
  - network connection, planning and augmentation;
  - network pricing;
  - metering;
  - dispute arrangements



# *Regulatory Responsibilities*

- Heads of Government agree to a national regulator
  - ACCC established as regulator of transmission network revenues
  - ACCC also reviews access arrangements
  - ACCC is the competition authority



# *Regulatory Responsibilities*

- States responsible for:
  - regulating prices to franchise customers
  - retail market issues
  - distribution network pricing
  - transitional arrangements for the NEM
  - environmental and safety issues
  - licensing



# *Regulatory Responsibilities*

- NEMMCO is responsible for
  - system security
  - reliability
  - dispatch
- NECA is responsible for
  - enforcement and administration of the NEC
  - dispute resolution





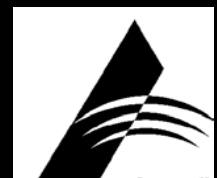
# *Privatisation and merger issues*

- Commission assesses mergers under s.50 of TPA
  - the level of market concentration;
  - barriers to entry;
  - import competition;
  - countervailing power;
  - dynamic characteristics of the market;
  - availability of substitutes; and
  - the level of vertical integration.



# *Privatisation and merger issues*

- Challenging future merger issues:
  - convergence between gas, electricity and telco;
  - horizontal mergers proposals between electricity generators; and
  - assessing the competitive effects of vertical reintegration



# *Lessons from Australia's Experience*

- Heads of government commitments
- Recognise different starting points, and reform agendas, of participating governments
- Separate structural reform from market reform



# *Lessons from Australia's Experience*

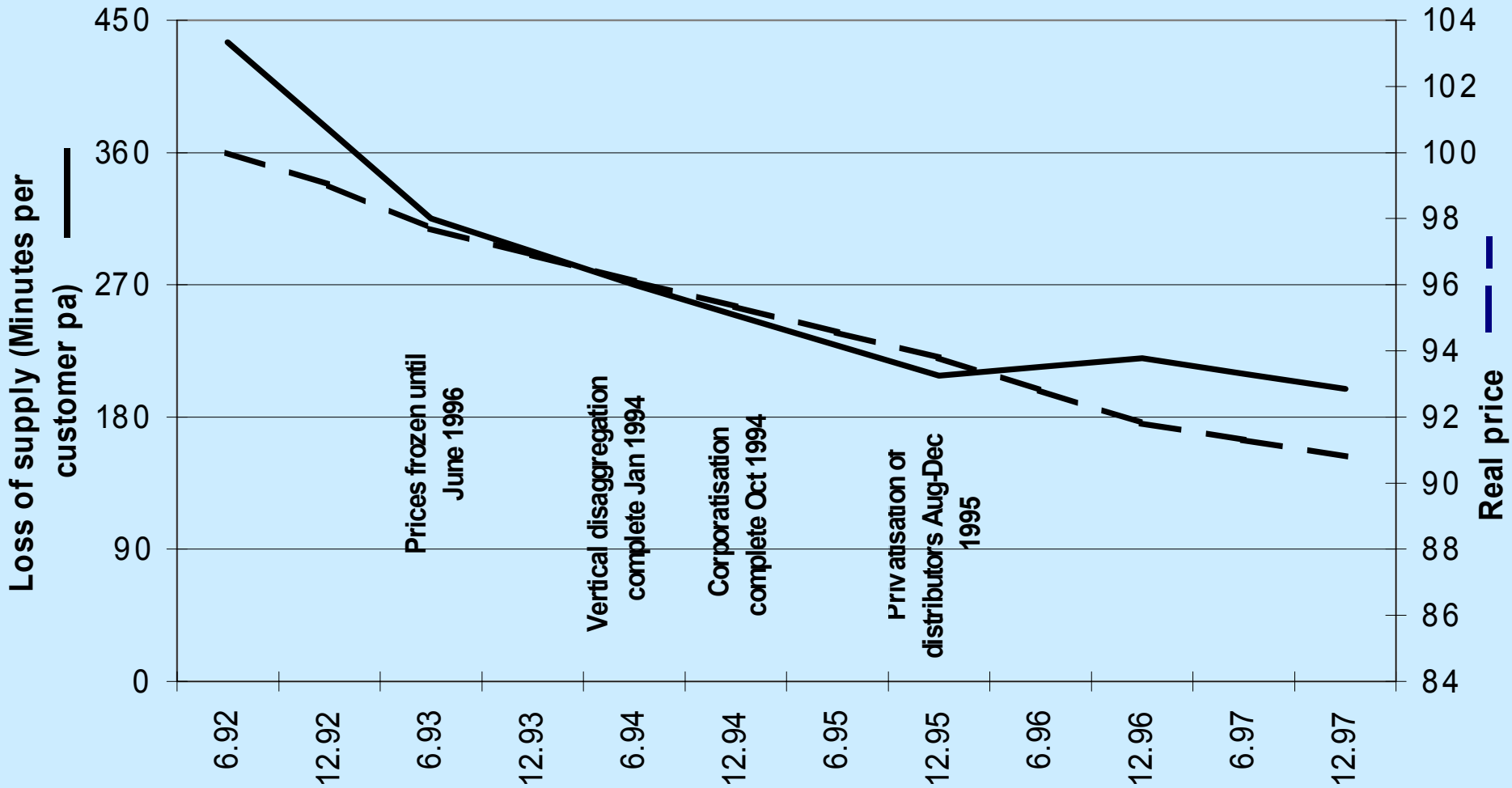
- Separate design from implementation
- The market arrangements do not necessarily have to deal with all the issues (ie Australia's NEM excludes consideration of Greenhouse issues)
- Do not underestimate the time required



# *Lessons from Australia's Experience*

- the Australian statistics show that:
  - average real prices for electricity have been trending down in most States, with commercial customers generally enjoying the more significant reductions; and
  - most of the price reductions and improvements in reliability in Victorian electricity occurred prior to privatisation.

# Victorian electricity reform



Source: Quiggin, J., Saddler, H., Neutze, M., Hamilton, C. and Turton, H., *The Privatisation of ACTEW*. The Australia Institute, December 1998

# *Lessons from Australia's experience*

- Dr Stephen King and Prof Rod Maddock:

“In the absence of any clear-cut finding in favour of privately owned firms the emphasis of the research has changed to see what other factors might better explain performance. Probably the most widely shared view is that ... ‘market structure is of great importance’ and more generally it is the degree of competition to which firms are exposed which best explains their performance.”

# *Watchwords on Privatisation*

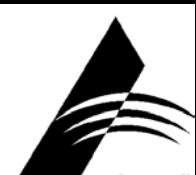
- Prior operation of incentive-based regulation is essential;
- Treat experts with caution;
- Apply relevant financial and social risk parameters when evaluating government utilities;
- Design incentive structures for regulation and for the privatisation process





# *Watchwords on Privatisation*

- Take an accountable, transparent approach;
- Prepare a transition path from a closed industry to open competition rather than perpetuate a closed industry structure in private ownership;
- Prepare an income and employment transition path for affected members of the community.



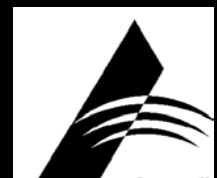
# *Draft Regulatory Principles*

- Transmission regulation framework outlined in the Draft Regulatory Principles is a building block approach
- CPI - X adjustment of revenue cap
- Asset base - DORC as a cap
- Asset base roll forward



# *Draft Regulatory Principles*

- Rate of return - nominal post-tax WACC
- Depreciation - competitive depreciation profile
- Benefit sharing
- Service standards
- Ringfencing



# *Conclusions*

- Australian experience is largely of structural reform before privatisation
- Privatisation should not be an end point - it is only one step in a reform process
- The Commission assesses the competition impact of privatisations and mergers on a case by case basis

# *Conclusions*

- The ACCC is making the regulatory process transparent through the Draft Regulatory Principles

