

Regulation, Industry Structure & Market Power – The Way Forward for Energy Users

Roman Domanski

Executive Director

Energy Users Association of
Australia

Where Are We (Users) Coming From ...

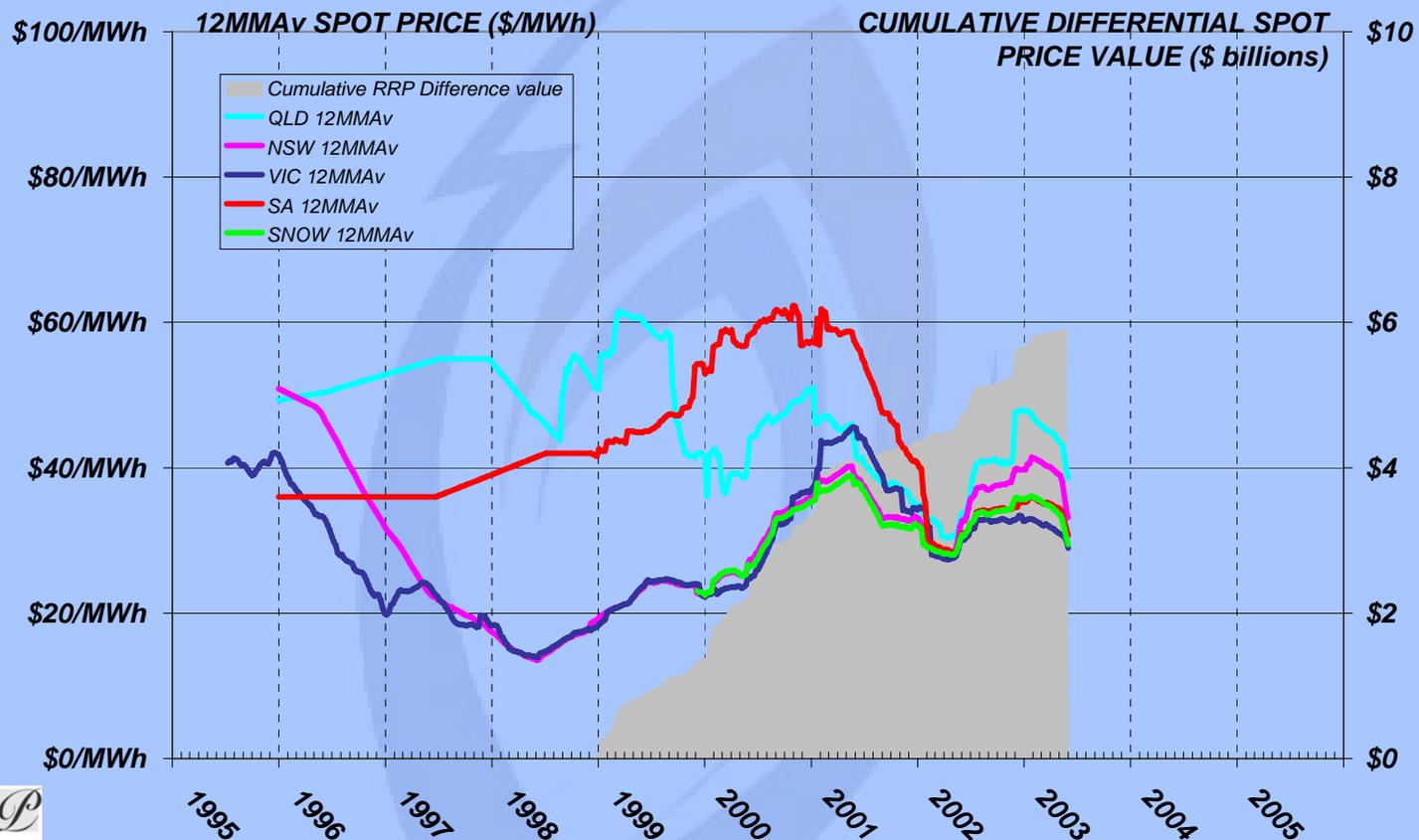
- Energy reform ... what is it good for?
 - Absolutely nothing!
- Well not quite, because there have been benefits
 - But they
 - Have varied over time (in the energy market)
 - Been limited geographically
 - Are constantly under threat from market power and monopolies
- We need market structures and regulation to deliver benefits to users
 - We aren't getting enough of this yet

Why Did We Reform Energy?

- Supposedly to benefit energy users
 - That's what we were told at the time and was the foundation for user support
 - We've had a bit of this but not enough
- Reality is that the reforms have conferred far too few benefits on users
 - Businesses sold off at inflated prices to increase returns to pre-existing 'owners'
 - Government owners have manipulated businesses, regulators and policy for budgetary purposes
 - Well-known con trick
 - Buyers, competitive markets & users have paid the cost
- Little point in reforming energy markets without benefiting the users of energy

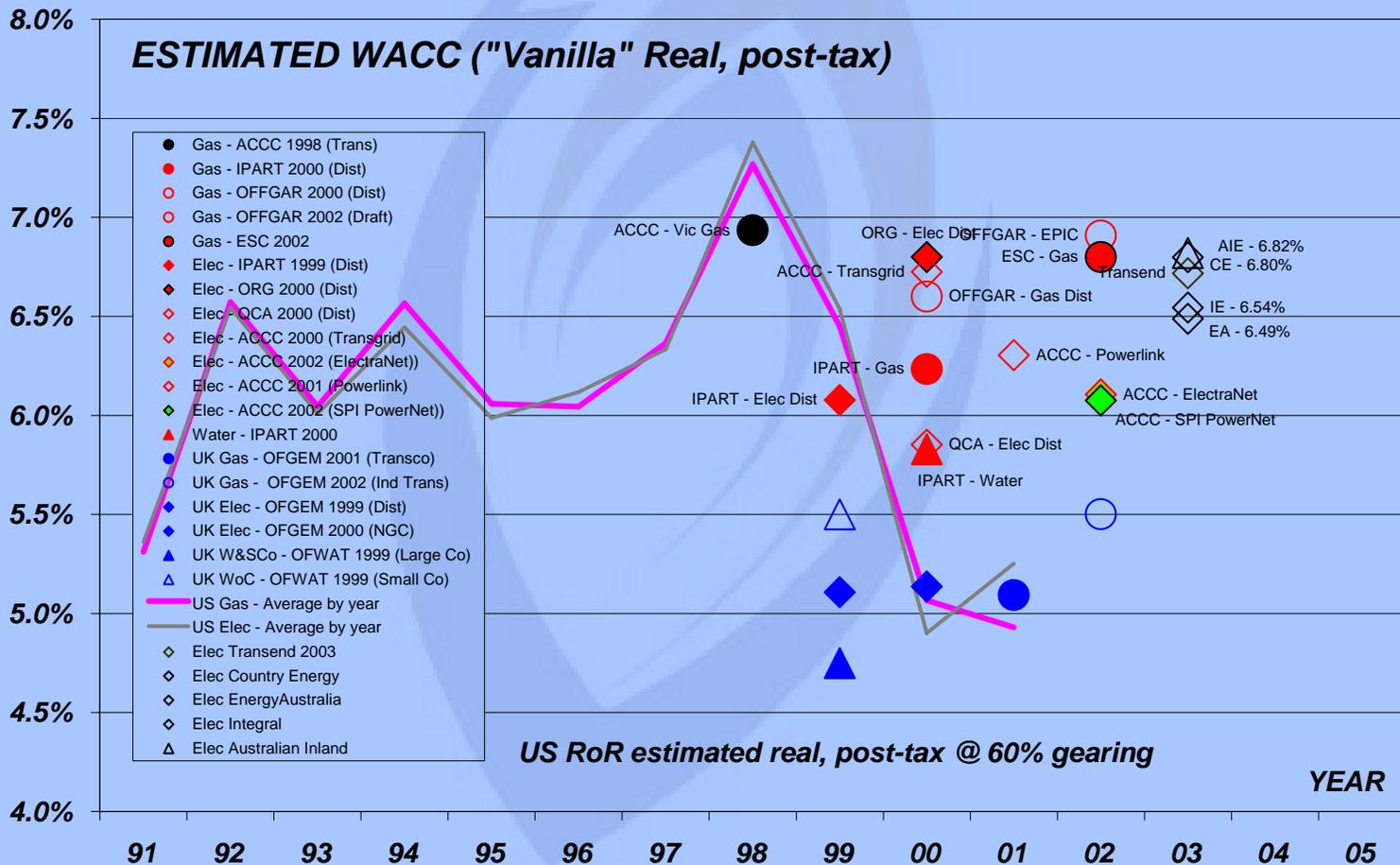
A \$6 Billion Hole in the NEM!

One Way Users Have Lost Out



- Differential regional spot prices has cost end-users \$6 billion since NEM start
- Caused by transmission & structural problems

Excessive Rates of Return for Energy Monopolies – Another Way Users Have Lost Out



The Way Forward – If We Are To Get It Right For Energy Users

- Let's remind ourselves of
 - IC energy inquiry
 - Hilmer
 - Original basis for NEM and gas reform
 - Parer
 - ABARE analysis of electricity markets (R.I.P.)
- It's clear what we need to do
 - But it's taking too bloody long
 - Meanwhile, we are costing ourselves
- Let's take a look at the main bits again ...

Competition, Market Structure & Market Power

... one key to overcoming the \$6 billion
hole

Market Structure

- We have taken some important steps, but have not gone far enough
- Vertical separation (except in WA?)
- Horizontal separation of generation poor in NSW, Qld, WA, SA & Tas (1/6 isn't good enough)
- Gas upstream & retail competition still lacking
- This situation means we have market power problems that still need to be dealt with

Fixing Markets

- Further **horizontal separation** of generation needed in NSW, Qld, WA & Tas
- Measures needed to enhance upstream gas competition
- Fixing **transmission** in the NEM
 - National approach needed – at least to planning & approvals
 - Better process needed to deal with constraints
 - Need +/- incentives for service
 - Need free flowing transmission links
 - A key to competition, trade, liquidity, reliability, etc

- **Demand management**
 - NEM is a supply-side dominated market
 - Healthy NEM needs a demand side response (DSR)
 - A complex, difficult and longer-term issue, but the gains make it very worthwhile
 - EUAA's DSR trial shows there is a practical and effective way forward (worth \$2 billion pa)
- **Gas reforms**
 - More upstream competition needed
 - Some emerging through market, new contracts, etc
 - Policy & regulatory action needed to re-enforce this
- **Pipelines**
 - A key to competition in gas supply
 - Existing regulation appropriate for mature pipelines
 - Need to deal more effectively with new pipelines

Regulating Energy Networks

- Monopolies and need to be regulated
- Support continued use of incentive-based regulation, but it has been overly-generous to networks
- Regulation needs to improve and not become static
- Is there a case for performance-based regulation?

Our Conclusions

- If we can't take these structural & other reforms
 - Then we need stronger regulation to keep market power in check when it breaks out
 - Current approach of relying on instruments, powers of instruments such as National Electricity Code and TPA is totally inadequate
- Unless there is a decent policy & regulatory response soon, we have no choice but to support stronger and more specific regulatory powers
 - Electricity has strong scope for market power abuse that cannot be left unchecked
 - Hope gas could be handled through more effective application of existing laws and instruments

The MCE & Implementing Parer

- Critical role & users looking for leadership and action on all major fronts
- Useful first step in June
 - Looking for other positive signs from today's meeting
- Energy regulator – EUAA's check list
 - Independent (from Govts/industry) & transparent
 - National & pro-competitive objectives
 - Seamless role along the whole energy chain
 - Appropriate powers, enforcement & penalties
 - Rationalise number of regulators & processes
 - Consultation & involvement from users
 - Resources
- Action on regulator not enough
 - Need steps in other areas too