
Roman Domanski
Executive Director
Energy Users Association of Australia

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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

ESTIMATED WACC ("Vanilla" Real, post-tax)

US RoR estimated real, post-tax @ 60% gearing

YEAR
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