

ELECTRICITY SUPPLY ASSOCIATION OF AUSTRALIA LIMITED

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“The way forward” panel comments by Keith Orchison,
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- The central theme of a conference of this kind, it seems to me, is “rescue by regulation”
- In my mind at least, this immediately raises a range of issues, not the least of which is the question of what is being rescued
- Given when this panel discussion is taking place in this conference, it is a bit late to be saying “Can we start by acknowledging the positives of the electricity market?” – but I would certainly like to put them on the record:
 1. There has been considerable integration of the wholesale markets in the NEM jurisdictions
 2. There has been substantial investment in new electricity generation and in interconnection along with gas development to provide a stronger fuel competitor to coal
 3. There has been a substantial improvement in generator availability with consequential savings in supply costs
 4. There is at least vigorous retail competition in the medium and large business sectors – users of some 70 percent of electricity consumed – if not in the household and small business sectors
 5. Notwithstanding some glitches, there are high levels of supply security and acknowledged improvements in distribution network reliability.
- Stating this is not to deny that substantial policy issues remain to be resolved for the NEM and for energy markets more widely – but can we be clear that our goal is to have world-class electricity supply able to meet Australia’s needs, not world-class regulation. The latter may be necessary to achieve the former – but the end-objective is to have an efficient supply sector driven by the market.

- Let us also acknowledge that this debate is not going on in a policy vacuum; following on from the Parer Panel review, we now have all Australia's governments focussed through the CoAG system on co-ordinated action to capture these additional benefits, and coincidentally holding an important meeting today of the Ministerial Council on Energy.
- In this respect, ESAA supports a number of the initiatives being pursued by the MCE, including:
 1. Moves to streamline and improve regulation, to reduce its cost and complexity, to enhance certainty and to lower regulatory barriers to investment.
 2. Pursuit of a really efficient NEM code change process.
 3. The approach to improve the planning and development of inter-State transmission.
 4. The proposal to review regulation of distribution network services with the aim of creating a "common rail gauge" approach.
- A shorthand version of what ESAA members seek can be expressed as *"a stable and accountable regulatory environment with minimum market intervention to reduce barriers to the investment needed to maintain a reliable and cost-effective supply of electricity."*
- The dimensions of this challenge in terms of ongoing increases in electricity consumption and where the principal load growth is located are well documented. In the next five years – let alone the next decade – there will need to be an outlay of some \$12 billion by distribution and transmission networks alone. There is much debate about when, where and via what fuels generation needs to be augmented, but surely not about the fact that a substantial investment will be needed in new generation capacity.
- Against this background, as I understand the brief for this panel of speakers, we are to address what we see as "the important regulatory issues going forward".
- As is well known, ESAA represents a broad range of electricity supply interests. Sectors, and indeed parts of sectors, have their own perspectives on regulatory issues. In the short time available here and in the context of a broad-brush view of regulatory issues, I set forward the following as being of particular concern to ESAA members:

1. The regulatory framework must provide a clear division of responsibilities between governments, regulators and market participants.
 2. Governments must be clear about their high-level role on policy and market design – and should exercise their influence transparently. They should not intervene in the market other than as high-level policy setters and regulators must not, by default, continue to act as policymakers.
 3. To the greatest extent possible, energy market regulation should cover electricity and gas.
 4. Regulatory processes should be efficient and streamlined, with a single point of accountability for decisions.
 5. There needs to be a merits appeal mechanism applicable to all forms of energy market regulation.
 6. State-based regulatory decisions should not distort national market outcomes.
 7. While it is accepted, albeit reluctantly, that State-based regulation of distribution network services will continue for the foreseeable future, regulation of retail licences and rules should join wholesale market and transmission regulation under the oversight of a national body.
 8. Creation of a “common rail gauge approach” to distribution regulation along with recognition of the network’s investment needs.
 9. Recognition that market price signals *must* reach customers.
 10. Overall, for economic, market and environmental regulation, recognition of the need for a clear set of objectives and pricing approaches on a national basis in a policy environment where the fostering of dynamic investment is among the top objectives.
 11. Policy and regulatory recognition that investment needs to be compatible with development of an electricity system for a modern economy. In this context, it is critical that investors should have the incentive to innovate.
- In addition to these points, ESAA has told MCE members in a recent letter that it is critical that they quickly reconcile the respective roles of the Australian Energy Regulator, the Australian Energy Market Commission and the ACCC in their current deliberations in order to deliver a streamlined, transparent single regulatory process.

- Our ambition in all of this, I suggest in conclusion, is to work hard to avoid the worst of all outcomes – a semi-market with substantial levels of regulatory intervention leading to a significantly depressed investment environment. There is an old medical joke that says “The operation was a success; it is a pity the patient died.” In the operation we are discussing here, the patient’s death is not an acceptable outcome for any and all Australians.

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