

The Commission is a major player in the introduction of competition to the electricity supply industry — one of the keys to achieving productivity improvements and benefits to consumers throughout the economy.

Traditionally, electricity generation and supply has been in the hands of State/Territory Government monopolies.

However, in recent years those governments have to varying degrees restructured, corporatised and even privatised those monopolies, in some cases breaking down the old structures into separate generation, transmission, distribution and retail units.

Moreover, New South Wales, Victoria, Queensland, South Australia, and the Australian Capital Territory have moved to create a national electricity market (NEM). This development, which is co-ordinated by the Council of Australian Governments, will result in a single wholesale market for electricity and an access regime for the transmission and distribution networks in southern and eastern Australia.

The arrangements for the operation of the NEM are set out in the National Electricity Code. On 10 December 1997 the Commission granted conditional authorisation to one of the code's two elements — the wholesale electricity market arrangements.

The code is a very detailed document which effectively replaces a maze of former State/Territory arrangements. It will be backed by State/Territory laws and will operate with equal effect in all participating jurisdictions.

The market arrangements are the rules governing:

- the wholesale market;
- institutions to operate the market and monitor the code's operation;
- requirements for the safety and quality of the electricity supplied;
- the market rules governing the co-ordination of generation to supply the market; and
- metering standards.

The code provides for some exemptions, to allow some State-based arrangements to continue for varying periods. These include exemptions for some power stations from complying

with the technical standards set out in the code, arrangements for the regulation of distribution network pricing by State-based regulators and provisions that allow existing contractual arrangements to be accommodated in the new market environment.

The State and Territory governments still have responsibility for environmental issues, retail arrangements and more general electricity regulation, particularly at the distribution level.

It is expected that the national market arrangements contained in the code will begin in March 1998.

The ACCC's role

Because the code has the potential to breach the restrictive trade practices provisions of the Trade Practices Act the proponents of the NEM applied to the Commission to have it authorised.

The authorisation process in the Act provides for immunity from court action for market arrangements or conduct which would otherwise be in breach of Part IV. In broad terms, the Commission has the power to grant authorisation where it is satisfied that public benefits delivered by the conduct or arrangements outweigh any associated anti-competitive detriment.

The Commission conducted a review of the proposed arrangements, taking into account the current structure of the electricity industry in each State. It called for public submissions, engaged consultants and in August 1997 issued a draft determination. The Commission then held a pre-decision conference about the draft determination, and called for further submissions before finalising its analysis and issuing its determination on 10 December 1997.

The Commission concluded that achieving the full benefits of the structural and administrative reform already undertaken depended on implementation of the national electricity market and access arrangements through the code.

This is because the national arrangements have efficiency benefits in terms of better utilisation of infrastructure and capital than allowed for in the current State based regimes, as well as giving rise to efficiency benefits from transparent and uniform treatment of wholesale market participants across the interconnected grid.

The benefits

The successful introduction of competitive reforms to the electricity industry provides strong incentives to participants to improve the efficiency of their production, resource allocation and investment decisions, and to minimise costs. The benefits flowing from competitive reforms are likely to be distributed broadly throughout the economy, through lower input prices to Australian industry, lower prices to end users, and more efficient use of society's resources.

Economic benefits will arise from the increased competition between generators in a large interconnected network, and improved resource allocation made possible by the development of market based incentives. Further benefits can be derived from the deferral of new plant investment, because interstate electricity flows will mean that surplus capacity in one area can be used to supplement generation in another. Interstate trade in electricity may also lead to better use of existing generating capabilities and therefore increase flexibility and reduce costs.

Shortcomings

The Commission accepts that the code arrangements have the potential to result in greater efficiencies in the electricity industry, lower input costs for other industries, lower prices and provide better service delivery to end users.

However, a number of problems, identified by interested parties and the Commission, reduce the likelihood that

the full benefits of electricity reform will be realised. These include:

- market distortions, such as a price cap and price floor, and market intervention arrangements, which due to perceived market immaturity may not be removed quickly;
- the possibility of excessive intervention by the bodies administering the market and/or the code;
- exemptions from the NEM arrangements which prove not to be transitional; and
- trading outcomes which may consistently promote the interests of some parties at the expense of others, despite being conducted in accordance with the code and within the bounds of the Trade Practices Act.

The Commission has also identified a range of other shortcomings which affect the public benefit and which must be addressed before the market begins.

It can be expected that further problems will emerge once the code arrangements have been implemented. The Commission believes that these shortcomings can be handled through the change process in the code.

Finally, the realisation of public benefits does not solely depend upon the implementation of effective code arrangements. There are external factors that are essential to creating the environment in which competitive outcomes will be realised. Market structure and entry conditions (such as licensing requirements) set by State and

Territory Governments are outside the scope of the code but are important determinants of the environment within which the code will operate.

To address the concerns raised, the ACCC has imposed a number of conditions on the authorisation.

Next step

The second element of the code submitted to the Commission is the access arrangements - the rules governing connection to and use of the physical wires infrastructure for transporting electricity.

This will be very important to the operation of the market as access to the physical wires infrastructure is essential for competition in the generation and retail markets.

The ACCC's draft determination on the access arrangements was released in August 1997 and the final determination is expected to be released in mid 1998.



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