

Consumers and market reform

Consumers may wonder why governments are going through the long and what probably seems contrived process of reforming the utilities — that is, the bodies that provide our electricity, gas and telecommunications, and manage our airports.



Ultimately, the aim is to make those areas more competitive. They have traditionally operated as monopolies

and have enjoyed the benefits that situation brings, with government intervening to cap pricing. But if they run their businesses under a more competitive framework, then it can only benefit consumers with better service and fairer prices.

In this section of **update**, we look at how the ACCC is regulating this process and what the benefits will eventually be for consumers.

Market forces change how electricity is supplied

Come 2003 the retail end of the electricity market in most States will be completely deregulated. This is likely to increase the pressure to make the supply of electricity more efficient, reducing the possibility of blackouts and supply interruptions.

In fact, a reliability survey by the Office of the Regulator General in Victoria a couple of years ago concluded that supply reliability had improved under private ownership. The consequences for a private sector supplier getting it wrong and blacking out its customers can be quite damaging. Not only do they face potential political censure and negative media exposure, they have to deal with the reaction of shareholders and, of course, angry customers.

There's nothing special about governments owning these things because they certainly don't manage them any better than the private sector,'

said Michael Rawstron, head of the ACCC's electricity group. 'There's no share price to discipline them. There's no threat of takeover. If the board of directors of a government-owned business makes a mistake, who disciplines them?'

In a deregulated environment, the reliability of power stations has improved markedly since the reforms commenced. Before the reforms, power stations were built on the assumption that between 30 and 40 per cent of the time they would be out of operation because of technical or other problems.

Now, in a more deregulated environment, most are running at close to 90 per cent availability.

'They haven't put any extra dollars in — we're simply talking about getting the same assets working harder.'

As in the supply of gas and telecommunications, deregulation could

also completely change how electricity is billed to customers, with incentives offered by various retailers.

Utilities companies may jointly bill, combining gas, phone and electricity on the one invoice, thereby saving IT costs for them and simplifying payment for customers.

As has happened in overseas markets, incentives could include frequent flyer points, discounts, credit cards etc.

The gradual introduction of smart meters, as needed, will give consumers much greater information about how and when they use their power. The meters may eventually be able to signal people to reduce consumption at times of high electricity prices, flagging the price, the time and the amount of energy consumed.

Restructuring in the electricity market has gone through a couple of stages. In the first stage in the 1980s, most States

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had an electricity commission that was then corporatised. During the second stage, the monopoly parts of the business — that is, the transmission — was separated out, and the remaining generating and retail segments were broken up into competing businesses and deregulated.

The transmission of electricity along high voltage wires, like Telstra's copper network, is uneconomic to duplicate and for the process to run smoothly, it must be easily accessible at both the production end (the power stations) and the distribution/retail end (the low voltage lines to consumers). The ACCC regulates access to this system by setting the maximum income that the transmission network can earn.

Reform of the electricity market has varied around the States. Until the process began, each State generated its own power to sell to its own customers. There was no national planning.

According to Rawstron, if New South Wales had surplus capacity this was not considered important in terms of what a nearby State might do, even if it was short of power, and vice versa. This situation led to governments spending billions of dollars building power stations that could have been deferred if they had imported power from States that had surplus generation.

The structural reforms broke up the electricity market by function. In some States, such as Victoria, it resulted in competing power stations; in other States such as New South Wales and Queensland, separate competing power companies were the result. At the distribution and retail end, companies such as Integral, ActewAGL, Country Energy, Energy Australia, Ergon and Energex evolved.

In Victoria and South Australia, the retail and generation companies are privately owned, whereas in Queensland and New South Wales, they are publicly owned.

For most States (except WA and NT), trade across the borders in each other's territory has been made possible by interconnecting their high voltage networks. Stronger interconnection meant States could share their reserves, plan for contingencies, assess the need for investment in new infrastructure and have greater security of supply. The benefit of this was savings in the order of billions of dollars a year.

Rawstron said that the reforms to the electricity sector so far had resulted in about 70 per cent of the market, in terms of value, being deregulated. This has largely been the wholesale market — that is, the buying of power by retailers from the producers, and its transmission and distribution.

The prices paid by retailers are usually set under contracts, or else decided on the spot market. Prices paid by consumers are still regulated and will stay so in most States until 2003.