

CEDA Energy Reform Series

Sydney
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Ed Willett



Infrastructure debate

“The current regulatory quagmire is suffocating new pipeline development and requires urgent policy attention by governments.”

Australian Pipeline Industry
Association 28 October 2001



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Infrastructure

Reports Agree – No Crisis

- Australia's Export Infrastructure Taskforce
- Investing in Australia's economic Infrastructure
 - *“There is no infrastructure crisis in Australia”*
- OECD Economic Survey of Australia
 - *“Australia A role model for other OECD countries”*
- Productivity Commission
 - Hilmer reforms add 2.5% to Australia's GDP



Gas Investment

The Facts

Constructed

- Eastern Gas Pipeline: Longford (Vic) to Sydney
- Tasmanian Gas Pipeline: Longford (Vic) to Tasmania
- Roma to Brisbane Pipeline looping
- SEA Gas Pipeline: Port Campbell (Vic) to Adelaide
- North Queensland Gas Pipeline: Moranbah to Townsville
- Telfer Gas Pipeline: Port Hedland to Telfer (WA)



Major New Pipelines

- Under advances stages of planning and development:
 - Central Ranges Pipeline: Dubbo to Tamworth
 - PNG Gas Pipeline: Papua New Guinea to South East Queensland (including lateral to Gove NT)



Electricity Investment The Facts

- Over \$4.5 billion under ACCC regulation since 1999
- TransGrid and EnergyAustralia investment decisions
 - Collectively accommodate over \$1.4 billion in new investment in NSW and ACT over 5 years
 - More than doubles replacement cost of assets in 10 years



ACCC Regulation Good For Investors

- Allen Consulting Group
 - *“there is no evidence to suggest that Australia’s regulatory framework is deterring investment in regulated utilities”*
- Moody’s Investor Services
 - *“supportive regulatory frameworks ... and stable operating and financial profiles”*
- Standard and Poor’s
 - *“transparent and supportive regulatory regime”*
- Fitch Ratings
 - *“the current regulatory regime appears relatively supportive for transmission entities”*



Streamlining and Improving Regulation

“The greatest impediment to the development of infrastructure necessary for Australia to realise its export potential is the way in which the current economic regulatory framework is structured and administered. It is adversarial, cumbersome, complicated, time consuming, inefficient and subject to gaming by participants. There are too many regulators and regulatory issues are slowing down investment in infrastructure used by export industries.”

Australia's Export Infrastructure Taskforce



Streamlining and Improving Regulation

- Quick decisions undermined by appeals, judicial challenges, tribunals and threats of appeal
- Plethora of regulators and territory bodies
- Return to the spirit of Hilmer
 - Access coverage decisions for ‘nationally significant infrastructure’ made by Commonwealth Minister
 - Remove requirement for re-hearing of decisions
- AER role model
 - Single national regulator for energy sector



AEMC Review

- Draft rule proposals
 - Fundamental changes to the way transmission networks are regulated
 - Reasonable estimate of service providers costs
 - Re-opener provision for overspend
 - Codifies regulation and methodology for setting revenues
 - More detailed: from 10 → 100 pages
 - Too prescriptive?



COAG Communiqué

- Undertook a stocktake of energy reforms nationally
- Commits to more reform



Ministerial Council on Energy

- Considerable integration of wholesale electricity markets in Vic, NSW, Qld, ACT, SA
- Substantial investment in new electricity generation and gas production
- Vigorous retail competition in medium and large business sector
- High levels of supply security and network reliability



Looking ahead

- Reform process far from complete:
 - Generator market power remains a problem in the NEM
 - Co-ordination of transmission planning is weak
 - Minimal demand side participation
 - Retail contestability underdeveloped



COAG commitments

- Recommitment to Ministerial Council on Energy reforms:
 - Transfer distribution regulation to the AER
 - Phase out energy price regulation



COAG commitments

- Establish as Energy Reform Implementation Group to report on:
 - Achieving a fully national transmission grid
 - Any measures necessary to address structural issues in the electricity sector
 - Any measures necessary to ensure transparent and effective financial markets to support energy markets



National Electricity Law

- COAG commitment to maintain separation of generation and transmission activities
- Other vertical and horizontal structural issues
- Transparent and effective hedge markets
- ACCC supportive of COAG initiative
- Side issue: Alinta takeover AGL?



Conclusion

- No infrastructure crisis
- Unprecedented investment levels
- Time to move debate forward
 - In order to improve regulatory arrangements and practices
- Focus on structural reform measures



More information...

ACCC - www.accc.gov.au

AER - www.aer.gov.au

