

Market Review and Competition Benefits Test Forum

Melbourne – 28 July 2003

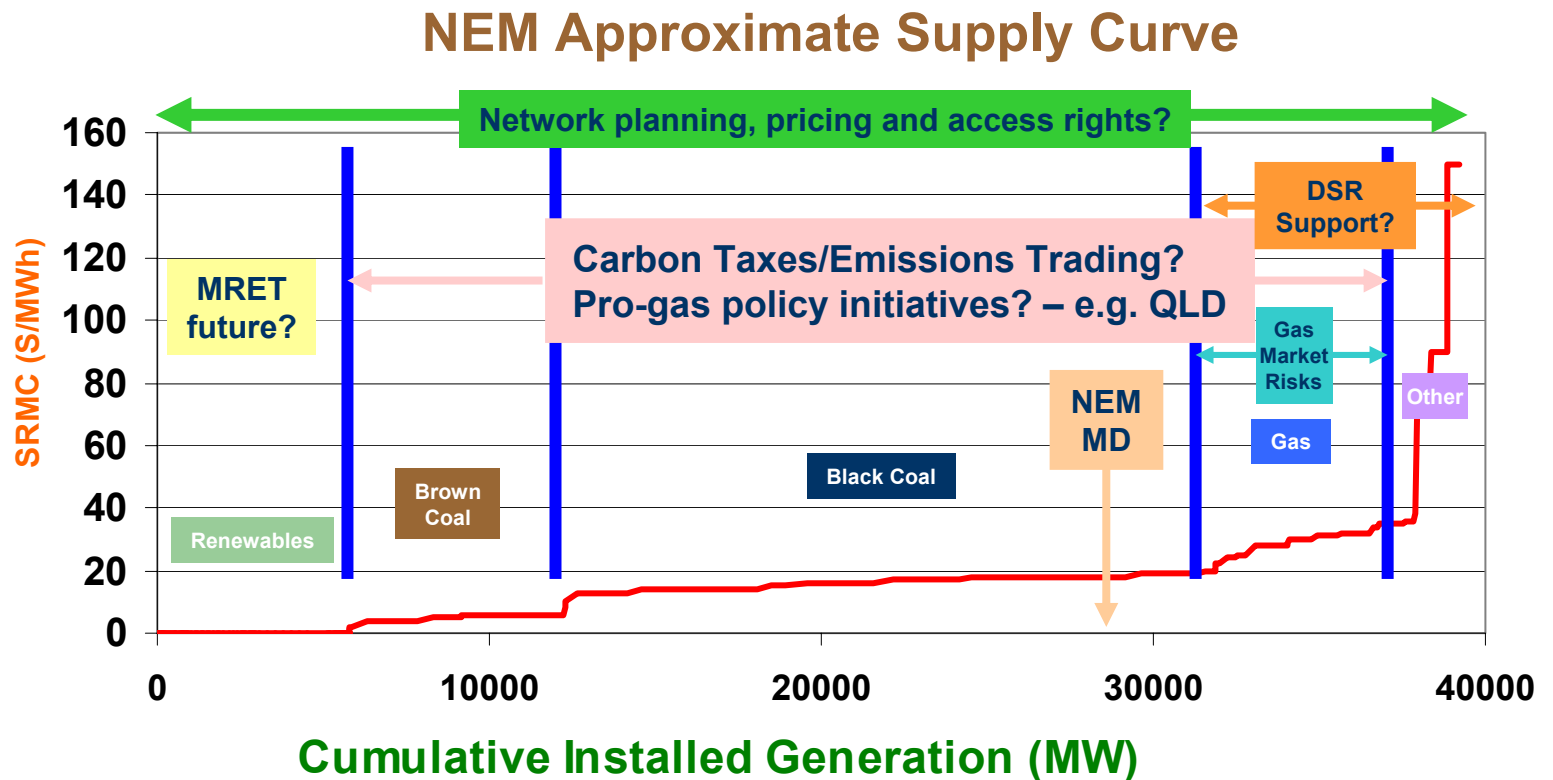
Competition Benefits Test
Industry Perspective –
Generator/Retailer



Participant Sponsors

- TXU Australia
- Edison Mission Energy
- Yallourn Energy
- International Power Hazelwood
- Loy Yang Power

NEM Regulatory & Sovereign Risk



Principal Objectives

- Economic efficiency and competitive neutrality
- Regulatory stability and predictability
- Enhanced TNSP accountability
- Preference for market-based solutions

Victorian Generator Position

FOR:

- A more onerous approach to interpretation and application of the Regulatory Test
- Access to an effective appeal process for disaffected stakeholders
- Consistent treatment of all forms of market intervention

AGAINST:

- Inclusion of competition benefits as proposed in the Regulatory Test
- Self-regulation by the TNSPs
- Sole reliance on ex post re-optimisation of a TNSP's asset base to deter excessive investment in the transmission network

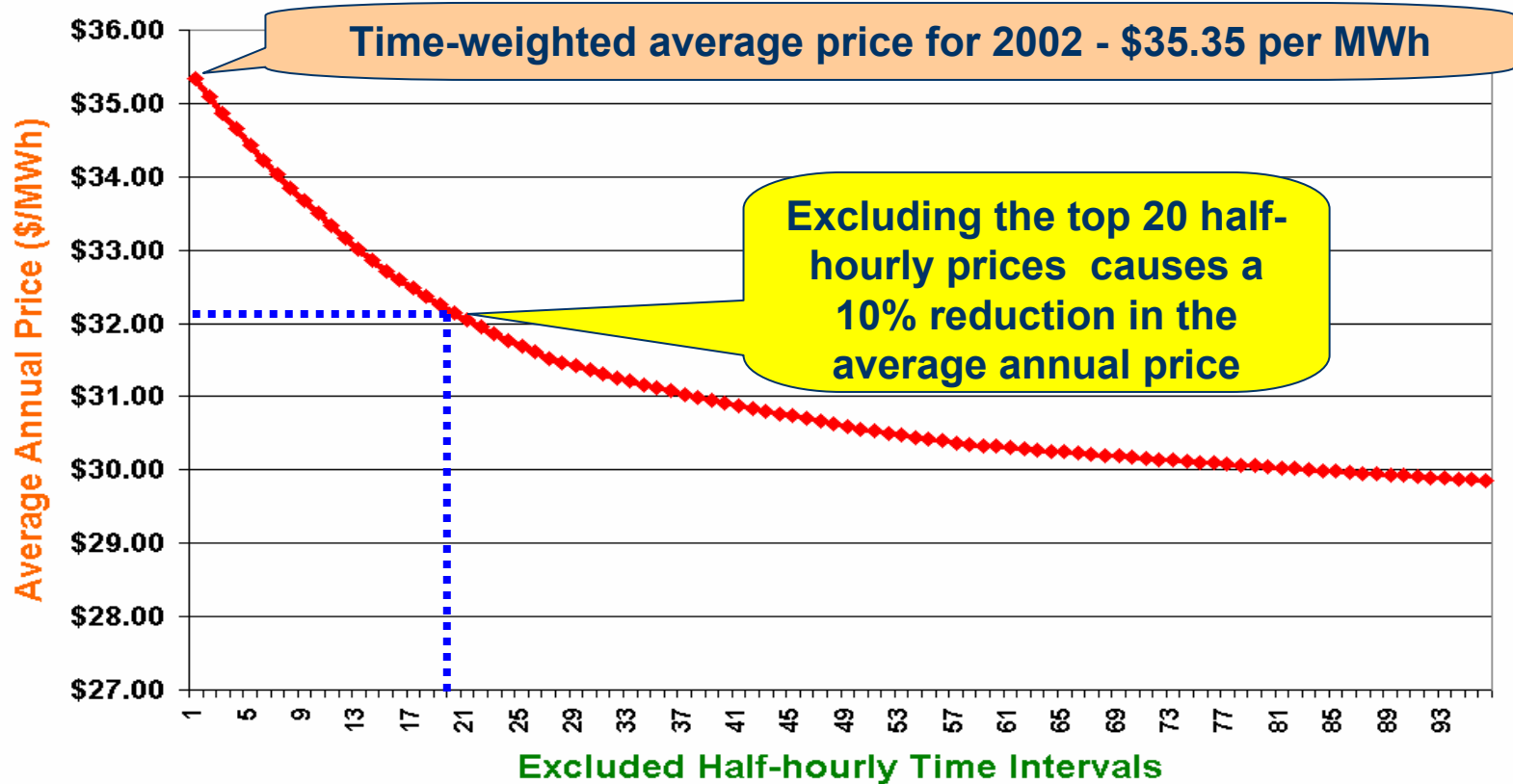
Competition Benefits – Why Not?

- No clear definition of the so-called market power ‘problem’ or its costs
- Dismisses other potentially more sensible and cost efficient solutions if there is indeed a ‘problem’
- No definitive method to quantify the future market power costs or the competition benefits
- So called competition benefits are merely a reallocation of economic benefits already accounted for in the economic test
- Without market-based compensation, the value of added transmission capacity is problematic

What is Market Power Abuse?

- Presence of market power does not equate to abuse of market power
- Spot prices above SRMC are an essential feature of an energy-only market
- How to distinguish between legitimate scarcity pricing and price manipulation?
- Systemic behaviour versus one-off incidents?

South Australian Prices - 2002



Options to address Alleged Market Power

- Structural/Ownership Diversity
- Over-investment in industry infrastructure
 - Generation
 - Network
- Supervision of Market Behaviour
 - Trade Practice Act
 - Other measures

Predicting Competition Benefits

- A measure of the presence of market power is not a quantification of market power abuse
- The ACCC has already exposed the serious limitations of all of the measurement options under consideration
- Additional transmission interconnection capacity will not increase reserve margins in the long term
- Lack of TNSP accountability is a serious limiting factor on the value of additional interconnection capacity to the market for any reason (including potential so-called 'Competition Benefits')

If transmission is to be built for “non-market benefit” reasons

- Treat transmission expansion for “non-market benefit” separately from other transmission augmentation for which the Regulatory Test would apply
- Consider the transmission expansion proposal as a non-market driven intervention action to be compared with other potential actions which could equally address the same “public good” objective
- Operate it as a market intervention resource as per the Reserve Trader provisions that apply to NEMMCO procured generation or demand side response

Non-Market Benefits Test Process Issues

- Ex ante ACCC approval – no self regulation by the TNSPs
- Use a process that matches the rigour and transparency of Part VII authorisations, with access to appeal by disaffected parties
- Impose time limits on the approval where the long-term benefits are questionable