

# Competition Benefits & the ACCC Regulatory Test

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28 July 2003



# Outline

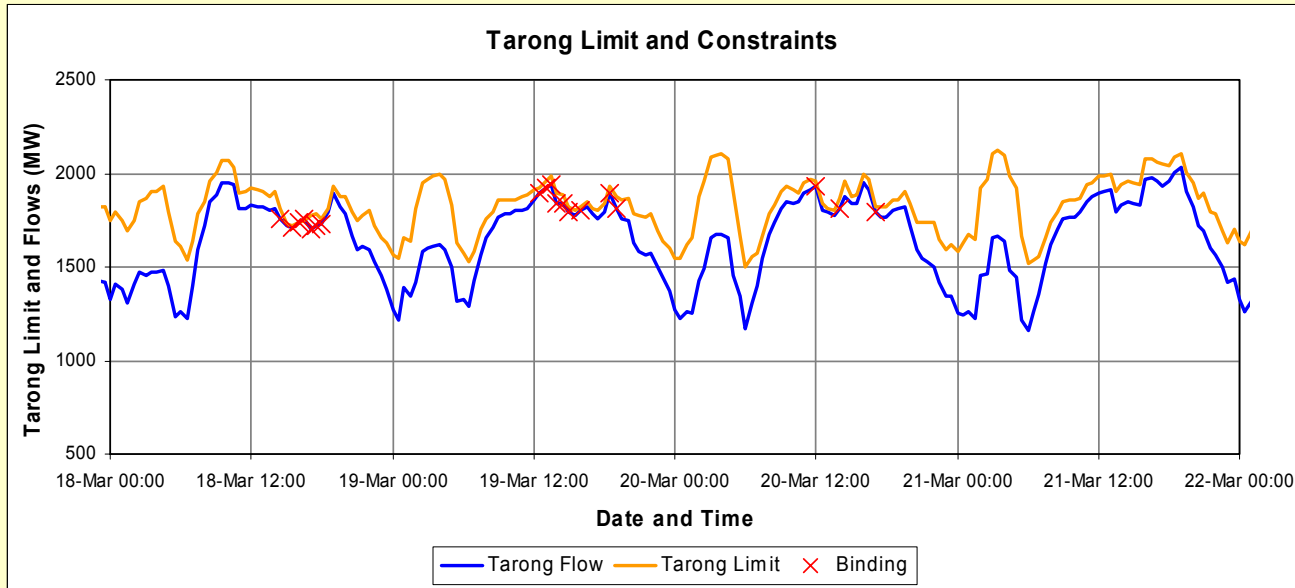
- Problems with the existing Regulatory Test
- Why inclusion of competition benefits is necessary
- Why price outcomes are important
- A suggested way forward

# Problems with Existing Test

- NEM is not a perfectly competitive market
  - ◆ key finding COAG Review
  - ◆ when network stressed, price outcomes not marginal costs
- Transmission augmentation can increase competition in the wholesale electricity market
- Regulatory Test doesn't allow competition benefit in assessing transmission investments
  - ◆ gives no value to wealth transfers from customers to generators - zero net economic benefit
  - ◆ 'losses' by customers due to higher prices offset the 'wins' by generators due to higher profits
  - ◆ impacts on customers of higher prices ignored
  - ◆ undervalues benefits of transmission investment

# Effect of Tarong Binding on Price

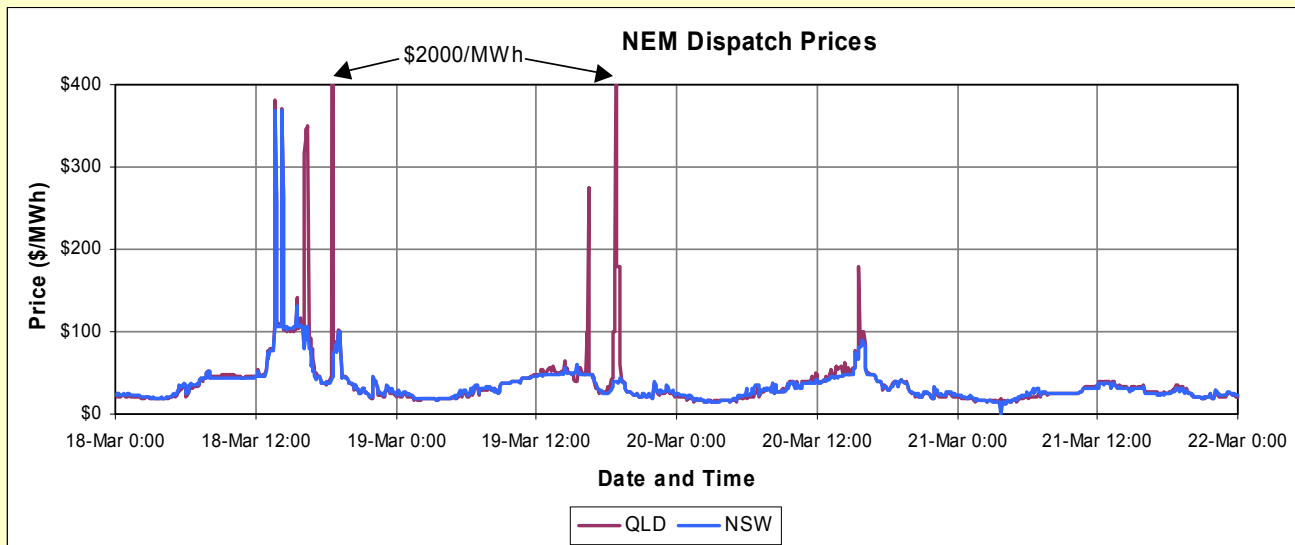
Can be significant impacts on price due to transmission congestion



Hot weather in SE Qld increased the load Brisbane.

Tarong binding was at relatively high levels.

The transmission system was intact.



# The NEM & Price Outcomes

- Importance of price outcomes
  - ◆ generator market power during binding network constraints can lead to higher customer prices
  - ◆ price outcomes determine contract prices
  - ◆ price outcomes determine generation investment
  - ◆ ancillary services market (eg - FCAS) another example
  - ◆ price outcomes influence retailer behaviour (eg - hedging)
  
- It is important that price outcomes be considered in transmission investment decisions
  - ◆ transmission augmentations can impact price outcomes
  - ◆ need optimum investment decisions (gen & transmission)
  - ◆ will lead to optimum dispatch
  - ◆ will lead to most efficient outcomes in the NEM

# Competition Benefits

- Powerlink considers (gross) competition benefits should be allowable in regulatory assessment
  - ◆ measure of benefits at customer level
  - ◆ what most commentators (eg - Parer) refer to
  - ◆ measures benefits to customers due to reduction in generator market power
  - ◆ **captures benefit to consumers of lower pool prices due to increased competition**
- Net competition benefits (generator cost differences and demand elasticity ) - retain as 2nd limb of Test
- Create 3rd limb of Test - ‘competition benefits limb’ that can capture pool price differences

# Way Forward

- 2 Stage Process for 3rd limb - “competition benefits”
- Stage 1 - is there potential for increased competition?
  - ◆ test of competitiveness of market (observed price outcomes or market power index as described in ACCC paper)
- Stage 2
  - ◆ only carried out if Stage 1 indicates potential for prices to be higher than marginal costs
  - ◆ Analysis using historical data and/or market modelling
  - ◆ If a history of non-competitive bidding exists, Reg Test should allow the use of actual bidding behaviour
  - ◆ market modelling would explicitly recognise wealth transfers from customers to generators (benefits of lower prices)

# Competition Test (cont)

- Pass test if total benefits exceed total costs
  - ◆ Accept market modelling will be subject to challenge
  - ◆ legitimate disputes by winners/losers are part of the process
  - ◆ excluding competition benefits to avoid disputes is inappropriate
  - ◆ Only carry out for augmentations where competition benefits are likely to be significant
  - ◆ Seek to make the process as robust as possible.

**Gross competition benefits are real and significant**

**Inclusion in Regulatory Test is consistent with the aims of competition policy to maximise long-term benefits to end-users**