

Electricity Deregulation Outside the New South Wales and Victorian Markets

The aim of this note is to outline some of the deregulatory issues that have occurred in recent years outside the dominant National Electricity Market (NEM) of New South Wales and Victoria. The NEM comprises New South Wales, Victoria, the ACT, Queensland, South Australia and following the completion of the Basslink interconnector, Tasmania. The focus is on developments in the smaller NEM markets of South Australia and Queensland and the distant and separate markets of Western Australia and the Northern Territory. This provides a supplement to the plethora of information on the principal markets of the more populous States.

Privatisation of electricity assets to date has occurred in Victoria—by direct sale during the Kennett era—and more recently in South Australia by a combination of sale and long-term lease. Electricity assets in Queensland, Western Australia and the Northern Territory remain in state government and territory hands although substantial market orientated changes have occurred.

Deregulation of electricity assets consisting of wholly state government owned and operated monopolies followed findings and recommendations of the Industry Commission, the Council of Australian Governments and a Special Premiers' Conference in the early 1990s.

The reasons for deregulation and change was because of projected national economic benefits resulting from increased competition in generation and retailing, a bigger market, and corporatised

transmission and distribution services. Projected benefits to customers included choice of supplier, cheaper electricity and an increased range of services.

South Australia and Queensland are connected to the NEM via interconnection. However, electricity trading in these states is constrained by interconnection capacity. There is little likelihood and no intention of Western Australia and the Northern Territory joining the south-east NEM because of the high cost of interconnection and the large electricity losses over long distances.

South Australia

As in other states, electricity in South Australia was supplied by a vertically integrated monopoly originally established as the Electricity Trust of South Australia (ETSA). ETSA underwent substantial restructuring including disaggregation in 1993 followed by corporatisation on 1 July 1995. The then South Australian Government further restructured and disposed of the government owned corporations associated with the supply of electricity in South Australia in accordance with the legislative provisions established under the *Electricity Corporations (Restructuring and Disposal) Act*.¹ The process of break up and privatisation was somewhat protracted and the timing was somewhat inopportune. It became apparent during this process that the sale of the Victorian electricity assets had been substantially overvalued. Nevertheless, net proceeds from the sale and lease of the disaggregated assets in South Australia netted the state government \$4.86 billion in fiscal 1999–00 and 2000–01.

South Australia had long benefited from the purchase of cheap power from the brown coal fields of the La Trobe Valley in Victoria via a 500 megawatt (MW) interconnector linking South Australia to Victoria. However, South Australia has been vulnerable to power disruption, especially in light of dependence on the interconnector for up to 30 per cent of its power, and the fact that the State has very high peaking demand levels (during periods of extreme heat) and thus high use of air conditioning.

Interconnection capacity with South Australia has since increased with the building of the 220MW Murraylink interconnector. In addition, a substantial amount of gas-fired electricity generating plant has been built in South Australia in the last five years.

Queensland

The restructuring of Queensland's electricity industry began in January 1997, significantly later than in most other states. Shortly after receiving a specially convened task force report (Queensland Electricity Industry Structure Task Force) the Queensland Government announced its electricity reform strategy. Key elements included splitting the state's major generator into three independent competing corporations, retention of the existing distributors, creation of three new trading corporations, establishment of a competitive market and reaffirmation of an earlier decision to interconnect to New South Wales.

The original Queensland Electricity Commission was broken into three corporations: the Queensland Generation Corporation trading as

AUSTA Electric, the Queensland Electricity Transmission Authority trading as Powerlink Queensland and the Queensland Transmission and Supply Corporation. These corporations were further disaggregated into competing generation and retailing entities together with regulated transmission and distribution entities. Following this disaggregation, retail competition commenced in the Queensland electricity market on 29 March 1998 with the first grouping of 'contestable' customers (greater than 40 gigawatt hours (GWh) per annum) able to choose where and how to purchase their electricity.

A competitive wholesale market was introduced in Queensland in March 1998. The market operates under the rules and systems developed for the NEM and are managed by the market management company NEMMCO.

With the completion of DirectLink (a private interconnector linkage and the Queensland–New South Wales Interconnector (QNI) in the second half of 2000, Queensland became part of the NEM. Queensland added nearly 2000MW of generating capacity to its grid connection in the last year or so, significantly adding to supply capabilities. Not only Queensland benefits from such additions as power generation can now be transported south into the wider NEM depending on market demand.

Western Australia

Although Western Australia will not be participating in the NEM, the electricity industry has nevertheless undergone significant restructuring. Western Power and AlintaGas were created out of the former State Energy Commission of Western Australia (SECWA) on 1 January 1995 as corporatised bodies with ownership retained by the Western Australian Government. AlintaGas separated its transport infrastructure, the Dampier to Bunbury Gas pipeline, from its distribution and retail business and this was subsequently sold to Epic Energy. AlintaGas was fully privatised in 2000.

Western Power, a vertically integrated monopoly provides about 60 per cent of electricity generation in Western Australia, with the remainder provided by private industry, especially in remote mining and industrial regions. Western Power provides power through two major interconnected systems—the South West and the North West Interconnected Systems. As a corporatised utility owned by the State Government of Western Australia, Western Power is required under the terms of the *Electricity Corporations Act 1994* to act commercially and endeavour to make profits that maximise the long-term value of the corporation.²

There are proposals to disaggregate Western Power Corporation into competing entities to promote further competition and bring down prices.

The Northern Territory

Electricity in the Northern Territory is supplied by a vertically integrated Government owned and operated entity. The entity, the Power and Water Authority (PAWA) was established in 1987, and took over all the responsibilities for power and water from previous Northern Territory government bodies.

PAWA owns and operates a number of power stations throughout the Territory. There is an interconnected system extending to Katherine and smaller interconnection extending south of Tennant Creek. These grids are supplemented by a myriad of local generation systems to small towns and communities.

The Northern Territory government has announced a decision to maintain PAWA as a wholly owned vertically integrated business. In association with the electricity restructuring process the Government has announced that the entities within the business will be ring-fenced, that is, operated on a commercially viable basis and not left reliant on monopoly status in an anti competitive manner. The ring-fencing code was introduced on 1 July 2001.

The reform program has seen the Authority restructured along business lines of Retail Services, Power Networks, Power Generation, Water Services and Rural Services. Claimed benefits to date include reductions in tariffs and an increased dividend to the Northern Territory government.³

Concluding comments

Benefits of the creation of NEM are increased competition in a greatly expanded market. The NEM operates across state borders and can benefit from the building of state of the art infrastructure in any jurisdiction in the market. It also enables the better utilisation of generation capacity.

Although Western Australia and the Northern Territory will not benefit by being connected to the NEM, a replication of the processes within the NEM in these jurisdictions should produce benefits such as increased competition leading to downward pressure on prices and increased services.

- 1 South Australian Audit Office, <http://www.audit.sa.gov.au/97-98/a4/electreform.html>.
2. <http://www.westernpower.com.au>, Company Overview.
- 3 Power and Water Authority, Various Annual Reports. Government of the Northern Territory, www.pawa.gov.au.

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