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Dear Sir or Madam

Expert Panel Review

The present approach, described as 'economic' regulation (but actually narrow financial regulation for the most part), is absolutely inappropriate and inadequate for delivery of optimal outcomes, it is:

- inconsistent with the principles of National Competition Policy as originally proposed in the Hilmer Report
- inconsistent with the original objectives of energy market reform
- based on the incorrect assumption that local optimisation of elements of the energy supply system using short-term financial criteria can produce solutions that are economically optimal and consistent with broader policy
- based on a very narrow interpretation of 'economic'

Further, the present regulatory approach encourages market participants to bog down regulators in appeals and legal games.

If 'economic' is defined as including full life cycle costs and external costs, then it would be compatible with sustainability goals. Instead, regulators apply narrow financial criteria that very effectively block market access to innovative technologies including distributed generation and demand side action.

A good example of the problem created by the present regulatory approach is the recent active opposition of Victorian gas distributors to the introduction of the 5-star house energy regulations. As was confirmed by a McLennan Magasanik study for the Victorian government, measures that cut gas usage per household (such as the 5 star regulations) significantly reduce the rate of return on pipeline assets (in fact for each 20 GJ per customer reduction, distributor rate of return is reduced by several percent per annum). This highlights the conflict between the narrow financial objective of increasing utilisation of pipeline (or electricity T&D) assets and policies that aim to reduce total societal costs and reduce environmental impacts.

It is critical that regulatory frameworks be annually compared against a set of specified outcomes that reflect societal economic outcomes (including externalities) and, where there outcomes are not being achieved, market participants must be made aware that annual changes will be made until those outcomes are delivered.

I have attached a paper I prepared some time ago on the issue of energy market reform and climate change issues. This highlights the serious deficiencies in the present situation.

Yours sincerely

Adjunct Professor Alan Pears