PANEL SESSION 2

The national electricity market

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Invited paper 4

The Queensland experience in electricity reform*

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* The following is a summary of Mr Anderson's presentation made at the conference.

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The Queensland Electricity Reform Unit (QERU) is currently implementing substantial reform in the Queensland electricity industry. The reform process began at the beginning of July 1996, when the Government commissioned a task-force to prepare a report to advise about the process of reforming the industry. The evidence suggested that the Queensland electricity industry's performance was declining relative to that other states.

The Queensland Transmission Supply Corporation (QTSC) owned Austa, which was the government's electricity generator. Austa controlled 80 per cent of the capacity in Queensland. The QTSC had a number of subsidiary corporations that included the seven distribution boards and the transmission body, Powerlink Queensland. This made QTSC a vertically integrated monopoly.

Under the arrangements of a vertically integrated monopoly, Austa was inefficient, because it was able to pass its costs to the single buyer. Most inefficiencies were in its head office functions. Surplus funds accumulated by Austa were invested in a number of inefficient projects. The high cost of power to consumers had a negative impact on economic activity in the State. Industry assistance to facilitate new projects was widespread in the State, and Community Service Obligation (CSO) payments tended to be discretionary and not well targeted.

The task force's key objective in the state electricity market was to encourage price signals that reflected underlying costs. This was achieved by:

- eliminating or minimising market power;
- establishing new organisations and institutions that acted with commercial objectives;
- having a non-discriminatory access regime into the natural monopoly elements of the industry; and
- eliminating barriers to entry in energy generation and retail supply.

One major reform was that Austa was split into three smaller generators. These generators remained in government-ownership and were corporatised. A fourth corporation, comprising the engineers of Austa, was established. The Government decided that the seven distribution boards retained because of regional policy objectives.

Other major reforms include establishing three trading enterprises and seven distribution boards. The Government decided that there should be links between the distributors and the retailers. The three northern distributors are now in an incorporated joint venture which owns a single retailer, the three central distributors are in an incorporated joint venture which owns the central retailer, and the southern distributor owns the southern retailer.

When the task-force was deciding the break-up of Austa, the issue arose of how many Austa-ettes would be an efficient number. Splitting Austa into three smaller companies would result in economies of scale losses of approximately 5 per cent. The gains from splitting Austa would need to be greater than 5 per cent to compensate for the split. The loss of scale economies for coal contracts were minimal since coal contracts were negotiated at the plant level.

There are some other areas of reform. Powerlink Queensland, which was previously a subsidiary of QTSC, the transmission company, was separated out as a single entity. It is going to depend on the regulator for its returns. There is a new corporation responsible for system control and market operation. It will operate as either a separate corporation or a ring-fenced operation within Powerlink. The first tranche of contestable customers will hit the market on January 1 next year, three months after the start of the market. By the year 2000 all customers in Queensland will be contestable. And, it is hopeful that the regulatory functions of QERU will eventually be passed onto the Queensland Competition Authority.

The task force is also involved in a number of other issues. Queensland’s geographic distances necessitate the development multiple pool zones. These are currently being developed. Given that there is Government undertaking for uniform pricing, remote zones are likely to attract CSO funding.

As of July 1 the new retail corporations will be launched. QERU has been working on defining the rules and regulations for the establishment of the new market and licensing arrangements and code issues. QERU is also working on establishing the retail price paths, and the establishment of an environmental code of conduct.

These reforms have facilitated economic development in Queensland. There is a substantial reduction in the uncertainty about the delivery of natural gas from Papua New Guinea, which will be used to fuel power stations down the cost of Queensland. There is also substantial interest from independent power producers to build coal-fired power stations in the Serap basin, and to build small gas units throughout Queensland.