



Australian Energy Market Commission

COMMENTS BY CHAIRMAN JOHN PIERCE AT THE BUSINESS COUNCIL OF AUSTRALIA'S FORUM: AUSTRALIA'S ENERGY ADVANTAGES

Energy market development at a crossroads

10 November 2014

With declining growth in demand in the electricity sector, the National Electricity Market faces new challenges to promote efficient investment in, and efficient operation and use of, electricity services for the long term interest of consumers. At the same time, the Governments and market operators in Western Australia are considering the appropriate design of their energy markets in the context of challenges, partly caused by the use of a 'capacity market' model. The following comments by John Pierce at the BCA's forum to launch their paper – Australia's Energy Advantages – follow his recent speech titled 'A consumer driven market' made at the 2014 NEM Future Forum.

Check against delivery

The price and reliability outcomes we experience in the electricity sector are a function of three things: what's happening in the competitive generation and retail sectors, what's happening in the regulated network sector and policy decisions, often from environment or land use planning portfolios that have a significant impact on how the market operates.

It can get complicated at times when there is an issue to diagnose, which of these three areas is its source. It can be even harder to get them all to move in a consistent direction, which raises interesting institutional design and accountability questions.

But it seems to me we are at an intersection, or a crossroads, in terms of energy market development, where depending on the decisions we make collectively – government, market institutions, industry and consumer groups – we will end up going down one of two paths.

The first path is one where the future development of the sector – the major investment decisions and disinvestment decisions – is effectively made by government.

This is essentially where we were before we had a National Electricity Market.

It is where the UK is now – private sector investment does not occur unless it is underpinned by a regulation, a government contract, or some other form of subsidy from the government.

Of course, this calls into question whether you've actually got a market at all if major investment decisions only happen if the government is there to direct and support them.

And a key characteristic of that sort of outcome is that the risks associated with investment and disinvestment decisions and the risks with whether such things as your demand projections are accurate, effectively land at the feet of consumers.

The alternative path, again depending on how we respond to issues facing the sector, is that we continue to develop a market which is essentially being driven by:

- Consumers doing what consumers do – making consumption decisions;
- Where investment risk and demand risk are managed by businesses operating in a workably competitive market;
- Where the networks sector operates within a regulatory framework that people can have confidence in and where there is a closer relationship between the prices charged for network services for individual consumers and the efficient cost of providing those services ([Read](#) about new rules proposed for distribution cost-reflective pricing); and
- Where the investments used to achieve government's policy objectives are compatible with the way the energy market works and where risk allocation is consistent with what makes our market 'a market' in the first place.

The decisions and responses to the issues we face will either take us inexorably down one path, or the other.

ENDS

John Pierce

Chairman

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[Click here to read the AEMC's study: *National Electricity Market: A case study in successful microeconomic reform*](#)

[Click here to read John Pierce's speech to the 2014 NEM Future Forum](#)

[Click here to read the AEMC's submission to the Renewable Energy Target Review](#)