

PREFACE

REFORMS IN THE ELECTRICITY INDUSTRY

Electricity generation and transmission is one of Australia's largest industries with assets valued at over \$70 billion, total annual sales of around \$11 billion and a work force in excess of 60,000. Electricity in Australia is not expensive by world standards, the low cost reflecting Australia's abundant natural resources, particularly coal and hydro potential. Competitively priced electricity is a significant factor in the performance of a large number of domestic and export industries.

Until recently the structure of the electricity industry was relatively simple, with each state having its own power authority monopoly, plus the Commonwealth's Snowy Mountains Authority. However, over the last few years, the states have begun to change the structure of their power supply utilities and to move further towards integration of a south eastern grid. This has been primarily motivated by Commonwealth moves to reform the electricity industry to have a competitive multistate, corporatised electricity market with an expanded, integrated grid.

To do this, monopoly elements (such as transmission, and system and market control) are being separated from those that have the potential to be competitive (such as generation and retail supply). Large state power authorities are being dismantled into separate units handling transmission, generation and distribution, and an interstate electricity transmission network with free trade in bulk electricity for private generating companies, public utilities and consumers, is being established.

There is currently a limited capacity for transfers of electricity between three states - NSW, Victoria and South Australia. New South Wales and Victoria are able to interchange power through the Snowy Mountains Scheme, although the capability of this link is limited by stability constraints. There is also a 500mw line between NSW and South Australia, via Victoria. Potential for interconnection includes establishing a high voltage link between NSW and Queensland ('Eastlink') and an undersea cable across Bass Strait ('Basslink') to connect Tasmania with the eastern grid.

The scope for benefits from the interconnection of electricity grids between Queensland and NSW has long been recognised but it has not been until recently that improvements in technology and reduced installation costs have allowed economic consideration of the project to be worthwhile. In February 1992, the electricity commissions of NSW and Queensland signed a memorandum of understanding to initiate feasibility studies, and in December 1993 the two States signed with the Commonwealth a Memorandum to further progress technical studies, community consultation and route selection to the stage of acquiring easements.

In preparation for full interconnection between the south-eastern states, a Special Premiers' Conference agreed in July 1991 to establish a National Grid Management Council (NGMC). This council comprises of representatives of the states of Queensland, NSW, Victoria, Tasmania, South Australia, the ACT, the Commonwealth, and an independent Chairman. The role of the NGMC is to encourage open access to the grid, free trade in bulk electricity, coordinate planning and to arrange competitive sourcing of new generation. In December 1992 the Heads of Government endorsed a NGMC National Grid Protocol which sets out the rules, responsibilities and technical requirements for connection to the National Grid and for participating in trading bulk electricity through Market sharing through the national electricity grid was originally intended to commence in July 1993 but delays have been caused by rivalry among stakeholders and ongoing disputes between the electricity industry and business customers over market arrangements, as well as problems in the development of a code of conduct. The NGMC has still not finalised the software mechanics which will be used in the settlement procedure and there are outstanding problems with the accounting system which will be used when the grid is in operation. A complete transition to a fully competitive market system is not expected until 1 July 1999.