# Cover for 'Electricity Network Regulartory Frameworks' Productivity Commission Inquiry Report Volume 1. Report number 62. Published 9 April 2013.Electricity Network Regulatory Frameworks

Productivity Commission Inquiry Report, No. 62, Canberra.

Commonwealth of Australia 2013

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The Hon David Bradbury MP  
Assistant Treasurer

Parliament House

CANBERRA ACT 2600

Dear Assistant Treasurer

In accordance with Section 11 of the *Productivity Commission Act 1998*, we have pleasure in submitting to you the Commission’s final report into Electricity Network Regulatory Frameworks.

Yours sincerely

| Philip Weickhardt  Presiding Commissioner | Wendy Craik AM  Commissioner |  |
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# Terms of reference

I, Wayne Swan, Deputy Prime Minister and Treasurer, pursuant to Parts 2 and 3 of the Productivity Commission Act 1998, hereby request that the Productivity Commission undertake an inquiry into electricity network frameworks, focussing on benchmarking arrangements and the effectiveness of the application by network businesses of the current regulatory regime for the evaluation and development of interregional network capacity in the National Electricity Market (NEM).

*Background*

Australia’s electricity sector is facing a number of challenges over the coming years. This includes a large investment requirement for networks to replace ageing assets, meet growing levels of peak demand, reliability requirements and to facilitate the transition towards Australia’s clean energy future.

Recent increases in network expenditure, and the resultant flow on to increases in electricity prices for end users, have highlighted the need to ensure networks continue to deliver efficient outcomes for consumers. Network regulation is a complex task requiring difficult and technical judgements. This inquiry will inform the Australian Government about whether there are any practical or empirical constraints on the use of benchmarking of network businesses and then provide advice on how benchmarking could deliver efficient outcomes, consistent with the National Electricity Objective (NEO). In addition, a second stream of this inquiry will examine if efficient levels of transmission interconnectors are being delivered, to inform the Australian Government about whether the regulatory regime is delivering efficient levels of interconnection to support the market.

*Scope of the Inquiry*

The Commission is requested to assess the use of benchmarking as a means of achieving the efficient delivery of network services and electricity infrastructure to meet the long term interests of consumers, consistent with the NEO. In addition, the Commission is requested to assess whether the current regulatory regime, as applied to interconnectors, is delivering efficient levels of network and generation investment across the NEM.

In undertaking the review, the Commission should:

* examine the use of benchmarking under the regulatory framework, incorporating any amendments introduced in the review period, in the National Electricity Rules and provide advice on how different benchmarking methodologies could be used to enhance efficient outcomes; and
* examine whether the regulatory regime, with respect to the delivery of interconnector investment in the NEM, is delivering economically efficient outcomes.

In undertaking the inquiry, the Commission should consider and take into account the work that is currently being progressed through the Standing Council on Energy and Resources, the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER). The Commission should have particular regard for the AEMC reviews into transmission frameworks, power of choice (demand side participation) and the suite of rule changes relating to network regulation currently under consideration by the AEMC in accordance with its statutory obligations.

The Commission should engage with the AEMC, the AER and the Australian Energy Market Operator in undertaking the review. In addition, the Commission should consult with Australian Government agencies, state and territory government agencies and other key stakeholders in undertaking the review.

The Commission will report within 15 months of receipt of this reference and will hold hearings for the purpose of this inquiry. The Commission is to provide both a draft and a final report, and the reports will be published. The Government will consider the Commission’s recommendations, and its response will be announced as soon as possible after the receipt of the Commission’s final report.

WAYNE SWAN

9 January 2012

# Disclosure of interests

The *Productivity Commission Act 1998* specifies that where Commissioners have or acquire interests, pecuniary or otherwise, that could conflict with the proper performance of their functions during an inquiry they must disclose the interests.

Dr Craik has advised the Commission that she is the beneficiary of subsidised solar PV panels.

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The full report is available at [www.pc.gov.au](http://www.pc.gov.au)

# Acknowledgments

The Commission engaged the services of Dr John Tamblyn, a well-known expert on the National Electricity Market (who has recently been involved in two other independent reviews of aspects of the electricity industry) to review some chapters and the overview for the draft of this report. Dr Tamblyn provided valuable feedback to the Commission, for which we are most grateful. However, the views and judgements in this report are those of the Commission alone, and should not be attributed to Dr Tamblyn or any other participant, except where clearly stated.