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NCP Inquiry
Productivity Commission
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Via E-mail ncp@pc.gov.au

REVIEW OF NATIONAL COMPETITION POLICY ARRANGEMENTS

CS Energy appreciates the opportunity to comment on the Productivity Commissions review of national competition policy arrangements. CS Energy is predominantly a participant in the National Electricity Market and our comments arise from experience in this market.

Market arrangements have been successful in creating competition. The market for electricity has many features and whilst the overall package has had a positive impact, in our view the contribution from each feature varies and some have had a detrimental effect.

The most important feature of the electricity market is the principle of open access. The strength of open access lies in the ability of any investor to bring forward generation so that incumbents cannot attempt to keep prices above sustainable levels. The competitive spirit has been so strong because of open access that we have seen Queensland generation come forward at a rate that has exceeded the annual load growth. For the electricity market open access relies on the electrical transmission network being of sufficient capacity to allow all generators to compete preventing individual generators from relying on a lack of transmission capacity to inhibit competition from others.

One feature that may have detracted from the success of the electricity market is complexity in the market design and an overly detailed mathematical and legal approach to efficiency improvements. The electrical engineering of electricity is by its very nature complex. At the beginning of the market design process a philosophical decision was made to have an energy only market, a simple design. The original design did not have, start up costs, mill change costs or shut down costs or other fundamental costs for in the electricity industry. All was outsourced to the generators to manage. What has transpired over the years is a move back to electrical engineering principles to which prices or markets have been overlaid. In the current arrangements low level costs of ancillary services separate markets. We now have 8 markets for ancillary services and cost recovery determined though analysis of data collected every 4 seconds. Electricity and ancillary service offers are optimised by a clinical mathematical process where a change in a factor at the 4th decimal place can mean that a generator is forced to go off line instead of generating at a full output. This continued pursuit of detail based upon

electrical engineering overlaid by commerce is fast becoming a commercial and regulatory nightmare. It is justified on the basis of improvements in "market efficiency" and provides the perception of correctness. As a result, risks and regulatory costs are ever increasing. Markets should strive for simple practical solutions, which provide the fundamental drivers for generation investment. This would have a far greater impact on market efficiency than increasing the engineering accuracy of market designs.

In conclusion new markets should feature strong open access principles. Market designs should be kept simple and perceived perfection should not be the aim. It does not mean that simple solutions do not have to be well thought out but to the contrary, it requires an ability to understand the issues at hand, to identify the critical elements, deal with them well and to have the confidence to discard the unnecessary.

Yours sincerely

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