

PRODUCTIVITY COMMISSION SUBMISSION BY **GREAT SOUTHERN ENERGY**

Inquiry – Impact of Competition Policy Reforms on Rural and Regional **Australia**

Introduction

The Commission has been asked to report on the following;

- a) The impact of competition policy reforms on the structure, competitiveness and regulation of major industries and markets supplying to and supplied by regional and rural Australia;
- b) The economic and social impacts on regional and rural Australia (including on small businesses and local governments) of the changes to market structure, competitiveness and regulation flowing from the reforms and the effect of these impacts and changes on the wider Australian economy;
- c) Possible differences between regional and metropolitan Australia in the nature and operation of major markets and in the economic and social impacts of the reforms promoted by national competition policy; and
- d) Any measures which should be taken to facilitate the flow of benefits (or to mitigate any transitional costs or negative impacts) arising from competition policy reforms to residents and businesses in regional and rural Australia.

Arising from the COAG agreement between the States and the Federal Governments a competitive electricity market has been introduced in eastern Australia. This market will have consequences for rural and regional Australia.

Competitive Electricity Market

The competitive electricity market commenced in NSW in October 1996, with larger business customers consuming greater than 40 GWh annually. Competition has now moved down to customers with an annual electricity consumption of 160 MWh.

In most cases those customers have made significant savings in the energy component.

The structure of electricity pricing in NSW, Victoria, ACT and QLD has changed in that there are three components: -

TUOS transmission use of system charge which is a NSW Independent Pricing and Regulated Tribunal (IPART) regulated charge for use of the NSW high voltage network. The charge is price based on assets deployed and is price locational.

DUOS Distribution use of system charge which is a NSW Independent Pricing and Regulated Tribunal (IPART) regulated charge for use of each NSW distributor's high voltage network. The charge is price based on assets deployed and is price locational and is different for each customer class.

Energy charge this is the competitive element which is charged to customers monthly and usually there are fixed term contracts between retailers and customers for the supply of electricity over the customers local network.

TUOS Charges

The cost for the use of this network in delivering energy into Great Southern Energy's region is around 1.1 c/kWh. This charge is similar for other NSW country regions in the Northern and Central West and Far Western areas.

The TUOS charge applied to electricity customers in Sydney is around 0.6 c/kWh.

This is an additional regional cost disadvantage of approximately 80% and for a large business would add up to \$200,000 annually.

For a medium to small business the additional annual charge would add up to \$800 annually.

Such an additional charge provides a strong disincentive for business to locate outside of the Sydney and Melbourne metropolitan areas.

DUOS Charges

The cost for the use of this network in delivering energy throughout Great Southern Energy's region varies between 0.74 c/kWh for urban HV customers and 8.51 c/kWh for an isolated rural business or farm.

These charges are similar for other NSW country regions in the Northern and Central West and Far Western areas.

The DUOS charges applied to electricity small business customers in Sydney is around 1.5 c/kWh.

For a medium to small isolated rural business the additional annual DUOS charge would add up to \$1,400 annually.

Such an additional charge provides a further strong disincentive for business to locate outside of the Sydney and Melbourne metropolitan areas.

At Great Southern Energy we believe that current level of cross subsidies to our 50,000 isolated or rural customers is \$22 million annually. Clearly with when all customers are contestable and network pricing is fully user pays or price locational this level of cross subsidy will not be sustainable. It is highly likely that Governments will need to fund this gap as a Community Service Obligation (CSO).

Network Maintenance and Service Support

With the reforms introduced into the electricity industry in NSW in 1995 there have been an aggregation of entities. Great Southern Energy for instance was formed from the merger of 8 organisations plus part of another. This has enabled change to be introduced and efficiencies obtained through rationalisation of resources.

This rationalisation has also withdrawn staff, in part, from rural areas. Great Southern Energy has endeavored to operate on a decentralised basis and will continue to do so for maintenance services but nevertheless there is an element of rationalisation and consolidation. This is also necessary if Great Southern Energy is to remain competitive and meet guidelines set by the Independent Pricing and Regulated Tribunal (IPART). IPART as regulator monitors capability of service improvement against best practice, and sets price caps which promote the seeking out of operational efficiencies.

One example is call centre operations replacing customer service centres. Previously customer service centres were distributed throughout our area. With the need to strive for efficiency and with technological improvement we have been able to introduce call centre technology. As this programme continues and as call centres are centralised this will further impact by reducing employment opportunities in rural and regional Australia. It is to be noted however, being a operator in rural and regional Australia, the call centres being established by Great Southern Energy will be regional but closer to the main centres, ie. Queanbeyan.

System Reliability

There has also been an advantage in the electricity industry reform as generally reliability has improved. Reliability measures have indicated that outage times for customers have reduced since the establishment of Great Southern Energy and the use of technology to automate the distribution system and to therefore reduce system outages.

The improved service to customers not only enhances lifestyle, but also assists rural and regional business operators to maintain and continue operation.

Contestability

Works traditionally carried out by electricity distribution companies are becoming increasingly contestable. This has been dictated in part by IPART rulings and also by the competition policy which has been introduced. There are positive aspects to this in that those requiring services have the opportunity to have more competitive pricing for those services.

However, there is a potential adverse impact arising from introduction of contestability. As entities such as Great Southern Energy strive to become more efficient and reduce costs there will be a focus on the profitability of individual services provided. In more remote areas it is possible that certain services may not be offered within the contestable area because of the scale of the business opportunity available and therefore potential profitability. Local operators may initially fill the gap but may in time similarly realise that the opportunity is limited and therefore not continue to offer services. As a consequence, the cost of delivering services will rise as more distant service providers travel to fill the gap and meet the demand.

This scenario is similar to what is happening in many other areas of activity throughout rural and regional Australia eg banking.

Conclusion

Regional development is an important issue. Equally, competitive provision and pricing of services is also critical. However, judgment needs to be exercised to ensure that the policy goals in one area are filled through proper consideration of policy alternatives to offset any shortcomings created through the introduction of competition in other areas.

In principle, competition is essential to improve our overall economic situation. However, there needs to be considered decision making to ameliorate economic and social impacts in rural and regional Australia. Governments need to consider whether development along the seaboard is what is really desirable and to introduce appropriate policy.

The reforms that are proceeding will have a consequence for rural and regional Australia. It will become increasingly difficult for operators to establish in rural and regional areas even though they may be close to their source of product, eg mines. Possibly, one solution is that governments recognise these issues by introducing subsidy adjustments as community service obligations so that the costs are transparent, but additionally to ensure that valuable export earnings are achieved.