



## PRIME MINISTER

### STATEMENT BY THE PRIME MINISTER, THE HON P J KEATING, MP ON THE NATIONAL ELECTRICITY STRATEGY

I am delighted to open today's roundtable discussion on the Commonwealth's National Electricity Discussion Paper.

The performance of the electricity industry is vital for Australia's economy. It is a very significant employer of our labour, capital and financial resources. It is also a major cost input to many manufacturing and resource-based industries.

For the manufacturing sector, for example:

- electricity costs are more important than road transport,
- twice as important as communications costs, and
- five times more important than rail transport costs.

Electricity is equally significant in the mining and services sectors.

Because of its importance I welcome the programs of reform being undertaken by individual States, by the utilities themselves, and by distributors.

Considerable improvements in the productivity performance of utilities have been achieved.

We believe that a national approach to the future development of our electricity industry has big advantages over a single State approach.

For this reason I put forward a proposal in 'One Nation' to provide up to \$100 million towards upgrading transmission interconnections in eastern Australia.

It was also with this national approach in mind that Heads of Government agreed in July last year to establish a National Grid Management Council to manage and develop the electricity industry in south and eastern Australia.

An important part of the Council's work to date has been the development of a National Grid Protocol to govern the operations of the industry, including rules for access to the transmission grid and competitive sourcing of new generation capacity.

Like other areas of industry reform which we have pursued vigorously in recent times, the key to continued reform is competition.

- Competition for generators.
- Competition for supplying large customers.
- Competition between States and within States.

A necessary condition for making a competitive system work is to ensure that no one competing in the market controls access to the market. And access to this market effectively means transmission.

We have put forward a model, the National Grid Corporation, for opening up access.

I want to emphasise that our model is for a neutral entity controlling a natural monopoly in a national market for electricity.

- Neutral, not Commonwealth or even necessarily government.
- Controlling, not necessarily owning the transmission assets it manages.

If the grid operator can clearly stand as a neutral entity in the market, with full management control of the assets on a national basis, that's fine with us.

It's not enough to separate existing generation and transmission activities, while keeping them under the control of the same organisation.

It's not enough to establish greater transparency in transmission access charging.

The Chairman of British Electricity International, Graham Hadley, pointed out recently that from the point of view of a potential new entrant reviewing our market, he strongly supported the idea of genuine separation of generation and transmission, so that no incumbent operator had, or could be seen as having, an unfair commercial advantage.

The alternative, he suggested, involved special compensation - effectively, subsidies paid by consumers.

This is not the way to go.

The point is clearly that all operators in the market place must be treated equally and be seen to be treated equally.

Perceptions of bias can greatly influence market outcomes and discourage competition.

The National Grid Corporation proposal would address this potential problem:

- It would avoid potential conflicts of interest;
- ensure that transmission pricing relates only to transmission assets;
- and would not be influenced by financial performance in other parts of the electricity business.

It would allow arms length trading between generators, distributors and other customers.

I look forward with great interest to the outcome of the National Grid Management Council's work on a structure for the operation of the grid.

I should also emphasise a comment made by Alan Griffiths recently - that is, that the National Grid Corporation proposal is not a smokescreen for the Commonwealth to take over the industry.

As I have said, the Commonwealth is not seeking ownership of the Corporation

Similarly, there are no evil intentions behind the Commonwealth's proposal to buy out New South Wales and Victorian interests in the Snowy Mountains Scheme.

A reformed Snowy Scheme could have an important role in helping develop a more competitive generation market.

The Snowy will, however, be only one of several players in the game and would be subject to the normal anti-competitive safeguards.

I find it difficult to see the Snowy tail wagging the electricity dog as some have suggested.

And if the NSW and Victorian Governments are prepared to negotiate, we could have an offer on the table later this year.

The issues I have briefly mentioned are all addressed in the Government's electricity discussion paper and will be debated in further detail during the course of today.

The paper provides an outline of the Commonwealth's current thinking. It is meant to act as a catalyst for

relevant parties to participate in the development of an agreed strategy.

From the already healthy written response to the discussion paper, we are obviously part of the way there.

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