



Competition Policy Review – Submission to Issues Paper

SP AusNet appreciates the opportunity to participate in the Competition Policy Review.

The purpose of this submission is to emphasise the importance of the continued application of the principles of competitive neutrality if Australia's energy sector is to achieve further economic growth and productivity gains.

About SP AusNet

SP AusNet is Australia's largest diversified energy network business. It owns and operates Victoria's electricity transmission network, which comprises over 6,500 km of transmission lines and 13,000 high voltage towers across the length and breadth of Victoria. SP AusNet also owns and operates an electricity distribution network in eastern Victoria which services over 650,000 customers, and a gas distribution network servicing approximately 620,000 customers in central and western Victoria.

Competitive Neutrality

The objective of competitive neutrality policy is "the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: Government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership."¹ The elimination of the resource allocation distortions will ensure that firms compete on merit, thereby maximising allocative and productive efficiencies.

Energy network businesses are monopoly businesses because the infrastructure costs associated with duplicating those networks are uneconomic. The competitive constraints facing transmission and distribution businesses tend not to come from competing firms but from the sophisticated incentive-based regulatory regime that is designed to mimic competition. While regulated network services are provided only by regulated businesses, market reforms are opening up formerly monopoly services to competition. Continuing to apply competitive neutrality principles is critical to fostering competition in these new markets.

A key area of competitive growth is the provision of contestable augmentations to the Victorian transmission network. Since the disaggregation of the SECV in 1994, initially the Victorian Power Exchange, then VENCORP and, since 2009, the Australian Energy Market Operator has had the legislative power to call for, receive and evaluate tenders for the construction and operation of certain augmentations to the declared transmission network in Victoria.² Under this arrangement, interstate transmission network service providers (**TNSPs**) and other suitably qualified parties can compete with

¹ Competition Principles Agreement, clause 3(a).

² Chapter 8, Part H of the National Electricity Rules.



SP AusNet for the rights to build, own and operate contestable augmentations. SP AusNet's potential bid competitors are the TNSPs from other NEM jurisdictions, which include Transgrid and Powerlink, the state-owned TNSPs in New South Wales and Queensland respectively.³

Contestable markets are also developing in the electricity distribution sector. Presently, meter reading services for mass-market customers are provided exclusively by the relevant distributor. The Australian Energy Market Commission has recommended changes to the way meter reading services are provided,⁴ including removing the distributor's right to exclusivity to enable competition from third parties. The reforms are expected to lower barriers to entry, encourage new entrants and promote stronger price-and service-based competition between the providers of meter reading services.

SP AusNet supports the policy of contestable services but notes that developing an effectively competitive market requires the continued application of competitive neutrality principles. Of specific concern is the potential advantage that state-owned corporations (**SOCs**) have stemming from their ability to secure debt finance at a lower rate than their private sector competitors.

The Productivity Commission explained how SOC obtain new capital:⁵

State-owned utilities obtain new capital from state governments by borrowing from state treasury corporations or retaining earnings that might otherwise be paid to the relevant government in the form of dividends. This funding is sourced by the state government by issuing debt, which, given the high credit rating of state governments, is acquired at relatively low cost.

To ensure the lower costs of borrowing do not afford the SOC a competitive advantage, and as required by the Competition Principles Agreement, the relevant state government applies a "competitive neutrality fee" to the cost of lending to the SOC. This fee is intended to increase the SOC's borrowing cost to a level that the business would face were it to borrow in the private debt market.⁶

The absence of competitive neutrality principles (and, more specifically, competitive neutrality fees) would enable a SOC TNSP, for example, to submit lower bids for a contestable augmentation project, relative to its private-sector competitors, because of the advantages afforded to it by virtue of its

³ Transend is also a state-owned TNSP, and is owned by the Tasmanian government.

⁴ See, for example, the Customer access to information about their energy consumption rule change (ERC0171) and the Expanding competition in metering and related services rule change (ERC0169) which are currently being considered by the Australian Energy Market Commission.

⁵ Productivity Commission, *Electricity Network Regulatory Frameworks*, Report No. 62, 2013, p. 214.

⁶ *Ibid.*, p. 216.



ownership. A similar advantage may flow through to a SOC distribution business engaged in the competitive provision of metering services. As the Hilmer Committee observed:⁷

Net competitive advantages of [this kind] reduce economic efficiency and community welfare, have the potential to impede the development of efficient national markets and can also give rise to legitimate equity concerns.

To facilitate the continued growth of competition in Australia's energy markets, SP AusNet submits that principles of competitive neutrality must continue to be entrenched in any new national competition policy. SP AusNet encourages the Panel to consider recommending that:

- competitive neutrality principles continue to form part of Australia's national competition policy
- Australian and state governments be required to give transparent explanations of how they are complying with the competitive neutrality principles
- each government be subject to a regular independent audit of its compliance with competitive neutrality principles
- the results of the audit be made public.

Concluding comments

Market reforms brought about by the National Competition Policy, and furthered by subsequent industry-specific reviews, have achieved substantial economic and social gains. SP AusNet agrees with the Panel that further competitive and efficiency gains can only be achieved if governments continue to reform Australia's energy markets. If the pro-competitive benefits of contestable services are to be realised, it is critical that the principle of competitive neutrality remains part of the competition policy landscape.

SP AusNet looks forward to the Panel's response in the Draft Report.

SP AusNet
10 June 2014

⁷ Hilmer Committee, *National Competition Policy*, Report by the Independent Committee of Inquiry, August 1993, p. 305.