Interpreting the LTIC

Assessment of the Long Term Interests of Consumers

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Interpreting the LTIC: Assessment of the Long Term Interests of Consumers

The intent of this paper is to aid ECA and other stakeholders engaging in energy market policy and regulatory processes to assess the extent to which the matter under consideration does, or does not, promote the Long Term Interests of Consumers.

Objective of Energy Market Reform

The Draft Report of the Review of Governance Arrangements for Australian Energy Markets makes it clear that the "abiding objective is to ensure that energy policy can be carried out in a framework that meets the long-term interests of consumers."[1]

While there is great clarity that this **is** the objective, there is not always similar clarity about what that objective means in practice. This paper is intended to assist in providing that clarity. It provides a framework to assess the impact on the long term interests of consumers.

This section of the paper outlines the development of the national energy market and the evolution of the various statements of this objective.

The Australian Energy Market

The Australian energy market has been undergoing a process of reform since 1990.

The initial groundwork was laid by then Treasurer Keating's referral in May 1990 to the Industries Commission to report on "the generation, transmission and distribution of electricity and the transmission and distribution of gas, excluding tax, resource rent and royalty issues relating to gas."[2]

In its report the Industries Commission recommended the "ring fencing" and then full separation of electricity distribution networks and generation, the pooling of the national transmission assets into one firm and extension of that network, and the corporatisation of all elements and eventual privatisation for generation. For gas it included the ring fencing of distribution and transmission pipelines and the requirement for the provision of open access.[3]

In July 1991 COAG formed the National Grid Management Council (NGMC)

> ***Electricity, Generation, Transmission and Distribution***
>
> *Leaders and representatives agreed to establish a National Grid Management Council to encourage and co-ordinate the most efficient, economic and environmentally sound development of the electricity industry in eastern and southern Australia having regard for key National and State policy objectives. This represents an important step forward in advancing co-operation in the electricity industry, the absence of which has cost the nation dearly in terms of excessive generation capacity, inappropriate plant mix and inflexibility of fuel use…*
>
> *In setting in place these arrangements, leaders and representatives noted the potential that they contain to deliver cheaper electricity and a more rational use of the nation's resources and to better position Australia in the international market for electricity supply*[4] (emphasis added).

The NGMC then published the *National Grid Protocol*[5]*, Statement of opportunities 1993-2005*[6]*, National electricity market and common trading arrangements: an information paper*[7]*,* and *Regulatory framework issues for a national electricity market.*[8]

Since then, energy market reforms that have been punctuated by major reports, including those associated with their leads – Hilmer, Parer and Scales.[9] Each of these progressively built on earlier work by the National Grid Forum to build a national energy market.[10]

By the time the Hilmer committee made its recommendations it was merely echoing the proposals made by both the Industry Commission and the NGMC for vertical separation between generation, transmission and distribution. However, it provided a very detailed analysis of the issues and was the proximate cause for ongoing reform.[11]

Chapter 10 of the Hilmer report set out a comprehensive analysis of the structural reform of public monopolies. The report identified the value of the separation of natural monopoly and potentially competitive activities as well as the value of the separation of different elements of competitive activities.

The Hilmer report used electricity transmission and electricity generation as an example of the benefit of the separation of monopoly and competitive activities. The problem that arises from integration is identified firstly as the possibility for the monopoly activities to cross subsidise the competitive activities. Where the relationship is vertical the control of the monopoly activities may be misused to stifle or prevent competition in the potentially competitive sector.

The framework of the regulatory arrangements were now well established, based on four principles:

1. The development of a national policy framework and, where possible, national markets.
2. The strict separation of potentially competitive markets from technologies that had natural monopoly characteristics (networks).
3. Promotion of competition in potentially competitive markets, and
4. Consistent "best practice" regulation of natural monopolies.

The Australian Energy Markets Agreement

Australian Energy Market Agreement was entered into by Commonwealth and State First Ministers on 30 June 2004. This states (emphasis added):

> *The objectives of this agreement are*:
> *(a)* *the **promotion of the long term interests of consumers** with regard to the price, quality and reliability of electricity and gas services; and*
> *(b)* *the establishment of a framework for further reform to:*
> *(i)* *strengthen the quality, timeliness and **national character of governance** of the energy markets, to **improve the climate of investment**;*
> *(ii)* ***streamline and improve the quality of economic regulation** across energy markets to lower the cost and complexity of regulation facing investors, enhance regulatory certainty, and lower barriers to competition;*
> *(iii)* ***improve the planning and development of electricity transmission networks**, to create a stable framework for efficient investment in new (including distributed) generation and transmission capacity;*
> *(iv)* ***enhance the participation of energy users in the markets including through demand side management and the further introduction of retail comp**etition, to increase the value of energy services to households and businesses;*
> *(v)* ***further increase the penetration of natural gas**, to lower energy costs and improve energy services, particularly to regional Australia, and reduce greenhouse emissions; and*
> *(vi)* ***address greenhouse emissions from the energy sector**, in light of the concerns about climate change and the need for a stable long-term framework for investment in energy supplies.*

The objective is clearly stated as being the promotion of the long term interests of consumers. To this is added a framework for further reform, the objectives of which include the focus on a national arrangement. It is notable that three of these have an environmental characteristic; promoting investment in transmission to support distributed generation, increasing gas penetration to reduce emissions and generally addressing greenhouse emissions for the energy sector.

The additional limbs of the objective at three points also refer to promoting investment or improving the climate for investment. This focus on investment is also reflected, in part, in the way the objective of the Agreement has been converted into law.

The National (Electricity/Gas/Energy Retail) Objectives - the NEO

The form of words chosen for the three Energy Laws reflect a confusion about the objective of economic regulation of "bottleneck" services (of which natural monopoly networks are one) from the Productivity Commission review of the access regime in 2000. The PC argued that the objective of regulation was overall efficiency. They further argued, incorrectly as we will see, that this is something different from just the long term interests of consumers.

Consequently, the energy laws all adopted a variant that the objective of the law was "to promote the efficient investment in, and operation and use of" energy services "for the long term interests of consumers with respect to…." As recently as the 2015 ACCC/AER Regulatory Conference Rod Shogren was arguing that economic efficiency was a more appropriate objective than consumer interest.[12]

However, once we unpack the meaning of "economic efficiency" we realise that there is no distinction. To determine when the interests of consumers collectively are best promoted we use the principle that this occurs when no person can be made better off without making someone else worse off. This is the definition of a Pareto optimal outcome and economists use it to define an efficient outcome.

It is unsurprising that it is possible to demonstrate that a competitive market will produce a Pareto optimum, hence delivering the concept of the "efficiency of markets." In the derivation of this result some very strong assumptions are made about the design of this market, rules that can be summarised as that the market is "effectively competitive." (Effectively competitive markets are those that deliver efficient outcomes.)

The conclusion is also that in competitive markets price equals marginal cost, as a consequence "efficient prices" and "efficient quantities" refer to cases where price equals marginal cost.

Regulatory consequences of promoting the LTIC

Whether the outcome sought from regulatory arrangements is stated as promoting economic efficiency or promoting the interests of consumers, it is met by ensuring that where competition is viable, the market is effectively competitive.

There are special circumstances where we know a market is not viable. These are the cases where all the output required can be produced at a lower cost by one firm than by multiple

firms. This is the case referred to as natural monopoly. Efficiency in this case requires that inefficient entry is prohibited and the position of the monopolist is preserved.

The first consequence of this is that the best market construction to promote efficiency and interests of consumers is the strict separation of monopoly from viably competitive markets.

However, preservation of the monopoly alone is insufficient. A profit-maximising monopoly has an incentive to reduce output below the efficient level and hence to receive a price above marginal cost.

As a consequence, to achieve an efficient outcome the monopolist's prices are regulated with the objective to set prices at marginal cost. This kind of efficiency is referred to as allocative efficiency, which refers to how consumers allocate their spending. Without regulation consumers can't buy as much as they would like to given the cost of supply.

A second problem arises in the incentive to manage costs. In general firms that are in competitive markets have an incentive to be the least cost producer because they earn more profit or grow their marker share. Firms that don't manage costs will eventually go broke and exit the market.

This also has implications for the pace of innovation of a monopoly.

Cost reduction and gaining market share are two powerful incentives for innovation. Both are absent for a monopoly (or any case where incumbent firms have significant market power). Consequently the monopoly is likely to not be as technically efficient as it might be causing a different detriment. This is what economists refer to as productive efficiency.

Consequently the regulatory scheme has to not only attempt to set prices at marginal cost, it needs to also determine that the firm's costs are technically efficient (sometimes called X-efficiency).

Here we need to reflect on what "long term" means in the objective.

The economic definition of "long term" is the period over which all costs are variable. That means we are talking about investment; we are considering capital expenditure as well as operating expenditure.

The approach to price regulation in the US has historically been rate of return regulation. The "building block model" now used in the UK and Australia has a different approach through revenue capping rather than price setting. The underlying concept in both is that firms are allowed to earn sufficient revenue to cover efficient operating costs and to provide a return of and for capital.

In a 1962 paper Averch and Johnstone demonstrated that a profit maximising monopolist subject to rate of return regulation will inefficiently substitute capital expenditure for operating expenditure. This tendency to "over capitalise" is sometimes encompassed in the concept of "gold plating" though the latter term can be any element of inefficiency.

The Regulatory Compact

We have demonstrated that promoting the long term interests of consumers requires economic efficiency. We have also demonstrated that to achieve efficient outcomes of monopoly services it is necessary to subject them to price controls (economic regulation) to reduce the prices below the levels an unregulated monopolist would charge.

The imposition of price controls on a private sector firm (or a corporatized Government body with a Board confronted by governance responsibility) creates a risk of *hold-up*. This is the risk that the firm having invested will have prices imposed on it that expropriate the firms value by setting prices too low to earn a return on the investment.

Faced with this risk the firm will simply under-invest.

This explains the focus in the AEMA on the need for the regulatory regime to provide a climate for investment or promoting investment. But this needs to be read in the context of the risk faced by the firm of economic regulation. It is not correct, as sometimes seems to happen, that the words "for the long term interests of consumers" is forgotten in the NEO. Even that form is often shortened to eliminate the words after investment and focus on promoting "efficient investment." And it is certainly wrong to equate the NEO to "promote investment."

It is not in the long term interest of consumers that monopolies are under-compensated for their investments. If they are there will be no investment and hence no services.

The regulatory compact then is that the monopoly is given a guarantee that prices will be set (the revenue amount) so that the monopoly can recover its efficiently incurred costs and a return for and of its efficiently incurred capital. Consumers in their turn are given a guarantee that they will pay no more than they need to for the services they are willing to pay for.

The matters up for interpretation are determining a reasonable return for capital and efficient levels of expenditure. Part of making that determination depends on the non-price elements of the long term interests of consumer test. Simply the quality, reliability, safety and security characteristics that consumers are prepared to pay for, and no more.

Indeed the balance between price and the service dimensions is something that is also expected to be determined by competition where it applies.

Overall the long term interests of consumers is served by consumers paying no more than necessary for the quality, reliability, safety and security of supply they want.

Additional considerations in regulatory design

Is there more than efficiency?

Efficiency is a desirable goal, but there are other societal goals like equity. There is a particular issue with the concept of Pareto optimum because ultimately the preferences of people with more wealth get a higher weighting.

The market theorist will respond that pursuit of efficiency will produce more wealth for everybody and that a straight wealth transfer (such as occurs through welfare payments and progressive tax) is not distortionary of allocation. However, not all transfers take place, and there are theorists who argue transfers affect the incentive to exert effort to earn income.

The equity consideration can be dealt with in one of two ways. The behavioural economics experiment known as the ultimatum game demonstrates that individuals value fairness. This suggests that consumers as a whole may be prepared to agree as part of the service quality compact to subsidise low income households. Alternatively the issue is addressed by incomes policy generally, the process of transactions outside the market.

However, for either case the starting proposition is that consumers as a whole pay no more than they need to.

The second question is whether the pursuit of efficiency adequately deals with the issue (included in the AEMA) of reducing carbon emissions. In the case where carbon emissions were to be addressed by putting a price on carbon, then the effectiveness of the strategy depended on how well that price signal was reflected in consumer prices. Clearly effective competition and best practice economic regulation were the best way of transmitting the price signal.

The issue has been compounded by the move away from a price on carbon. However the distortions of any direct action plan (e.g. subsidising renewable generation) will be minimised in an overall scheme that promotes efficiency.

The focus on rooftop photovoltaic generation and high feed-in tariffs is actually a case of demonstrating how a poorly implemented carbon policy had a detrimental effect on energy markets.

To be clear, it is not a choice between an objective of efficiency and alternative objectives. It is a case of efficiency AND other objectives, and these other objectives are best delivered in conjunction with efficiency.

What do we mean by effective competition?

It is not sufficient to promote the long term interests of consumers to create competition simply by removing prohibitions on entry into a previously monopoly market.

Identifying the characteristics of an effectively competitive market has been studied extensively in the economic theory of regulation. ECA's submission to the AEMC's approach paper to the 2016 retail competitiveness review brought together the dimensions separately identified by the AEMC, EC and ACCC.

AEMC	EC	ACCC
The degree of independent rivalry in the market	Independent rivalry within the market	requires that there be 'independent rivalry in all dimensions of the price/product/service [package]'
Barriers to retailers entering, expanding or exiting the market	The ability of suppliers to enter the market	requires that barriers to entry are sufficiently low and that the use of market power will be competed away in the long run, so that any degree of market power is only transitory
Customer activity in the market	The exercise of market choice by customers & Customer switching behaviour	
Whether retail prices are consistent with a competitive market.	Price and profit margins	requires that, over the long run, prices are determined by underlying costs rather than the existence of market power
	Differentiated products and services	the dynamic characteristics of the market, including growth, innovation and product differentiation as well as changes in costs and prices over time

Customer satisfaction with market outcomes		

The table points to, but doesn't highlight, that there are two sides to a market that need to be developed for competiveness and really only one core measure.

The core measure is prices. The test is whether prices are as low as they would be (equal to marginal cost) in a perfectly competitive market.

There tends to be a focus on supply side measures in assessing the effectiveness of competition. The "structure, conduct, performance" paradigm from the field of anti-competitive conduct regulation is the archetype in this regard. We derive from this field the importance of the strong separation of potentially competitive markets from monopoly elements; leveraging of monopoly will foreclose competition.

Structure is measured by the ease and experience of entry and exit from the market, though an aggregate measure such as the Herfindahl–Hirschman Index (HHI) and the concentration index are used. The HHI is the sum of the squares of the market share of firms in the market (it ranges from 0 to 1 if market shares are measured as proportions, or from 1 to 10,000 if shares are expressed as percentages, latter is more common in the US.) The HHI is particularly useful as it relates directly to the theory of mark-up in a Cournot oligopoly.

Conduct is summarised as the extent of independent rivalry between the actual firms in the market[*]. The dimensions of rivalry include the efforts made by firms to attract customers, and that includes specifically the degree of product variety in the market.

Performance is best measured by the price outcomes.

However the supply side is only half the market. As was observed in the AEMC's *Power of Choice* review "Efficient markets are characterised by effective participation of both the supply and demand side. The supply side of the market provides a product or service at a price, and the demand side (ie consumers) responds to the price/value of the product or service being offered. While there is some evidence of uptake of DSP [Demand Side Participation]…over recent years, the efficiency of the electricity market can be improved by more active participation by the demand side."

[*] ECA has previously referred to the HHI as a measure of conduct. It is more accurately a measure of structure.

The analogue of “structure, conduct, performance” for the demand side is “confidence, engagement, satisfaction”.

For effective competition consumers need to be confidant in the ability of the market to respond to and meet their needs, and confidant that they have the information and tools they need to make choices based on their needs.

With confidence consumers will engage in the market. Engagement need not result in new choices being made. It is most notable when consumers are dis-satisfied but still don’t engage.

Ultimately, the measure of an effective market is satisfied customers. Satisfaction is with the whole price-quality balance of the products the consumer is acquiring.

These three measures – confidence, engagement and satisfaction – are what ECA is measuring in its Energy Consumers Sentiment Index.

These elements are necessary conditions for effective competition, but they may not be sufficient. In keeping with economic theory they are based on an assessment of what Thaler (2015) calls Econs rather than Humans. The extent to which consumers rely on heuristics and other decision making short-cuts and biases may need to be considered in assessing the demand side factors.

What do we mean by best practice economic regulation?

Economic regulation is imposed on natural monopoly with the objective of getting the economically efficient outcome that would have occurred in a competitive market.

First and foremost that means that prices are set at marginal cost.

But price regulation has its own risks of under-investment by the regulated firm due to price uncertainty. So the first feature of best practice regulation is to provide certainty for the regulated firm that revenue will be sufficient to cover efficient costs and a return of and for efficiently incurred capital.

The objective here is not only to overcome the “regulatory risk” but to go further and provide the regulated firm with a degree of certainty that is higher than would apply in competitive markets.

Ultimately under such a scheme there are only two real questions to be determined.

The first is what return for capital is reasonable. This is a field that has become excessively complicated and the scope for regulatory discretion works against the underlying objective of certainty. Hence values for equity risk get included when the only source of risk is the

regulatory process itself. Similar comments are applicable to the calculation of returns on equity where effort is expended on estimating gamma (which is an almost uniquely Australian factor cursed by dividend imputation) while the gearing ratio is simply assumed.

The second is in determining what the efficient level of operating and capital expenditure are. Unfortunately two elements are conflated here. The first is the very straight-forward question of how technically efficient the firm is. The second relates to discretionary spend.

Technical efficiency can be assessed by empirical tools, especially benchmarking. It is possible to create clarity about the operation of benchmarking so that the outcomes are clear and limiting the need for the exercise of the regulator's discretion.

The area of discretionary spend is the space in which there is strong prospect for greater use of consumer engagement. A simple example would be the trade-off that consumers are prepared to make between the frequency of vegetation clearance and the resultant incidence of network interruptions.[13]

A well-structured process that demonstrates consumer support for the discretionary spend in the firm's business plan should be afforded extremely high evidentiary value by the regulator.[†]

The LTIC assessment framework

The ECA constitution establishes ECA's objective as to:

> *To promote the long term interests of Consumers of Energy with respect to the price, quality, safety, reliability and security of supply of energy services…*

This is consistent with the objective in the Australian Energy Market Agreement and the three Energy Laws.

As with all such legislative provisions the use of these common English terms leaves the possibility of multiple interpretations.

Price has a relatively clear meaning, the objective is for consumers to pay no more than they need to. However there are other aspects to price. Consumers make their own investments and so want low price volatility. For consumers to make informed choices prices need to be comprehensible. This goal of price stability has been a critical element in the introduction of cost reflective tariffs.

[†] This is the real story of the Scottish Water case.

Quality of energy services technically relates to physical characteristics, be that voltage and frequency ranges or pressure of gas supply. A reduction in the acceptable range for supply would have a significant cost impost. The quality element consumers see most is the customer service provided – mostly by retailers but also by networks regarding faults. The third quality element is the effect on the environment of the deployment of infrastructure, including visual amenity.

Safety is relatively clear but has multiple dimensions. It covers fire risk from networks through to the safety of appliances (with batteries being a particular new issue).

Reliability in the energy market context is used to cover any circumstance where demand is not met by supply, and includes any of the elements from a failure at the connection point (e.g. meter fault) through to network breaks, transformer failures or inadequate generation availability. For consumers the experience of reliability is mostly blackouts and the restoration times following them. It is decades since Australians have experienced frequent staged blackouts or brownouts due to lack of generation capacity to meet demand.

Security of supply is somewhat more confusing. The International Energy Agency "defines energy security as 'the uninterrupted availability of energy sources at an affordable price'". This in part reflects the IEAs origin in securing supply of oil in the wake of the oil market events of the mid-1970s.[14] The Australian Government defines energy security as "as the adequate, reliable and competitive supply of energy where;

- adequacy is the provision of sufficient energy to support economic and social activity,
- reliability is the provision of energy with minimal disruptions to supply, and
- competitiveness is the provision of energy at an affordable price which does not adversely impact on the competitiveness of the economy and which supports continued investment in the energy sector.[15]

These definitions of security therefore incorporate aspects of reliability.

Energy system engineers interpret 'security of supply' to refer to the elements of system security, in particular voltage and frequency control.

AEMO CEO Matt Zema refers to the issues as a troika of issues; reliability (continuity of the network), system security (frequency and voltage control) and capacity (whether there is sufficient generation to meet demand).

In addition to the five criteria the focus on the long term interests of consumers requires a focus on how change occurs. As a consequence, how something effects incentives to innovation is a criterion that needs to be added to the list included in the objective.

The above discussion provides the framework for the “LTIC assessment framework” This sets out a framework for the consideration of whether a thing does or does not promote the LTIC. The framework is to provide a quick method to assess how a specific proposition may promote the LTIC.

To capture the importance of the “long term” consideration and by extension the value of innovation an extra category is added which is an assessment of the incentives inherent in the proposition. This can be thought of as the likelihood that the promotion of the LTIC above will actually be achieved.

LTIC assessment framework (electricity)

In considering a policy or regulatory proposal, including a rule change or specific regulatory determination, (the thing) the following questions should be addressed in determining whether it promotes the long term interests of consumers.

Part A – Market Impact

If the thing is designed to improve the effectiveness of competition:

1. How does the thing affect the supply side – including structure, conduct and performance?
2. How does the thing affect the demand side – including confidence, engagement and satisfaction?

If the thing is designed to improve regulation:

1. How does it improve certainty over return for capital?
2. How does it improve the assessment of technical efficiency?
3. How does it improve consumer direction of discretionary expenditure?

Part B – Balancing criteria

1. Price
   - 1.1. Will the thing help consumers pay no more than they need to?
   - 1.2. Will the thing reduce price volatility rom year to year?
   - 1.3. Will the thing make prices more comprehensible to consumers?
2. Quality
   - 2.1. Does the thing support delivery of voltage and frequency consistency?
   - 2.2. Does the thing contribute positively to the “environment” – including local visual environment? (Things consumers care about)
3. Safety
   - 3.1. Does the thing mitigate existing safety risks?
   - 3.2. Does the thing create new risks?
4. Reliability
   - 4.1. Does the thing decrease the likelihood of a network failure?
   - 4.2. Does the thing decrease the expected restoration period following a network failure?
5. Security of Supply
   - 5.1. Does the thing increase system security
6. Capacity
   - 6.1. Does the thing enhance the provision of capacity to meet forecast demand over the next decade?
   - 6.2. Does the thing enhance responsiveness of capacity to demand increases?
7. Incentives and Innovation
   - 7.1. Does the proposal create clear incentives to institute changed behaviour (on both demand and supply sides of the market) to promote the LTIC?
   - 7.2. Are there other factors which will detract from the incentives?

Conclusion

The Long Term Interests of Consumers is best promoted through economic efficiency. An economically efficient outcome (in either an effectively competitive market or a regulated monopoly) is one in which consumers pay no more than they need to for the quality, reliability, safety and security of supply they want.

This framing of the legislative intent was specifically referenced when amendments to the process for AER revenue determinations and Limited Merits Review were introduced in 2013.

> *The changes to the National Electricity Law and National Gas Law that will be introduced with the passing of this Bill will be key in ensuring consumers do not pay more than necessary for the quality, safety, reliability and security of supply of electricity and natural gas under the national energy laws.*[16]

In assessing the potential trade-off between price and the other criteria it is important to clearly delineate the outcomes for each of the criteria that will occur as a result of a specific policy proposal or business initiative.

This paper has covered the overall approach to assessing the promotion of the Long Term Interests of Consumers. There are a number of specific questions that can and will be posed about the assessment of the LTIC. These will be provided in a Supplement to this paper.

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[1] Dr Michael Vertigan AC, Professor George Yarrow, Mr Euan Morton *Review of Governance Arrangements for Australian Energy Markets: Draft Report* July 2015 P.15

[2] Industry Commission *Energy Generation and Distribution* May 1991.

[3] *ibid*

[4] Special Premiers' Conference Communiqué Sydney, 30 July 1991 – Available at http://archive.coag.gov.au/coag_meeting_outcomes/1991-07-30/index.cfm

[5] Trove entry http://trove.nla.gov.au/version/29166367

[6] Trove entry http://trove.nla.gov.au/version/12127751

[7] Trove entry http://trove.nla.gov.au/version/29214569

[8] Trove entry http://trove.nla.gov.au/version/13710674

[9] Hilmer, Fred (Chair) 1993 *National Competition Policy Review* AGPS. Parer, Warwick (Chair) 2002 *Towards a Truly National and Efficient Energy Market: Report of the COAG Energy Market Review* Scales, Bill (Chair) 2007 *Energy Reform: The way forward for Australia* (A report to the Council of Australian Governments by the Energy Reform Implementation Group)

[10] Landels, JA (Chair) 1992 *National Grid Protocol* National Grid Management Council

[11] The national attention focussed on the Hilmer report results in this sequencing being misunderstood.For example, in the judgement Applications by Public Interest Advocacy Centre Ltd and Ausgrid [2016] ACompT 1 the claim is made [19] that "It is clear enough, from that

legislation [National Electricity (South Australia) Act 1996 (SA), its context, and the events preceding it, that it was a consequence of the competition policy reforms and the pro-competitive policy mindset following the Hilmer reforms in the early 1990s."

This is an erroneous statement. The Act owes its genesis to the work preceding Hilmer (as stated in the preamble to that Act see http://www.austlii.edu.au/au/legis/sa/num_act/neaa44o1996434/)

[12] In his remarks Rod Shogren said "I'm not convinced that it is true that all the Australian frameworks for economic regulation have at their core the overall objective of regulating for the long-term interests of end users….I'm pretty confident that most economists feel that they know what a good regulatory outcome looks like without needing to be told exactly what the Act says. And what would they say? Well, what I'd say is that the key objective of economic regulation of utilities is to improve economic efficiency."

http://www.accc.gov.au/system/files/Plenary%202%20-%20Rod%20Shogren%20-%20ACCC%20%26%20AER%20Regulatory%20Conference%202015.pdf

[13] It is noted however that certain distribution and transmission network reliability standards are made by jurisdictions outside the context of the revenue determination process. Such "de-linking" of the process of setting design standards and responsibility of revenue determination is a policy framework that is inimical to the promotion of the LTIC.

[14] IEA see http://www.iea.org/topics/energysecurity/subtopics/whatisenergysecurity/

[15] http://www.industry.gov.au/Energy/EnergySecurity/Pages/default.aspx

[16] The Hon. J.R. RAU (Enfield—Deputy Premier, Attorney-General, Minister for Planning, Minister for Industrial Relations, Minister for Business Services and Consumers) South Australia House of Assembly 26 September 2013

Glossary

ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Markets Commission
AER	Australian Energy Regulator
LTIC	The Long Term Interests of Consumers
NEO	National Electricity Objective
PC	Productivity Commission

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