

EUAA Presentation to AEMC Workshop on TFP

11 February 2009

Melbourne Airport

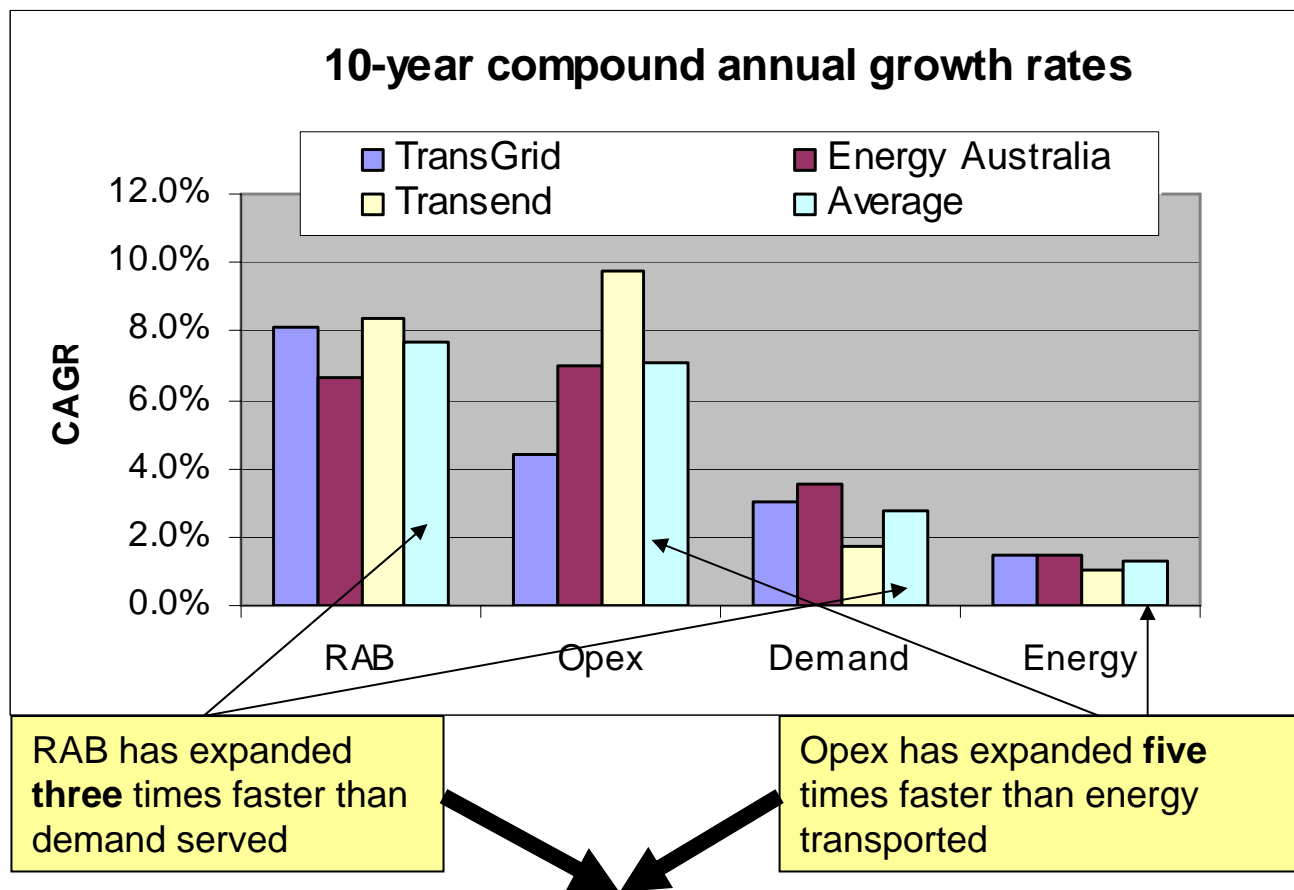
Overview

Is there a problem that needs fixing ?

What role can TFP play in fixing the problem ?

What do energy users want to see from this review ?

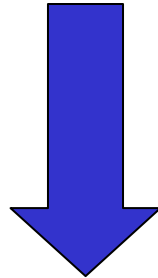
Is our regulatory regime broke ?



“Building blocks” has failed.

Other symptoms of failure

- ❑ Ever increasing cost pass-throughs, re-openers, “contingent projects”;
- ❑ Ever more myopic business-specific expenditure assessments;
- ❑ Ever more feeble attempts by regulators (Federal and State) to use the comparative disciplines of competitive markets as a regulatory tool.



It seems to end users that the regulator has been captured.

What role can TFP play ?

- ❑ The problems that have led to this failure are deep-seated:
 - ❖ **Ownership:** Government ownership still predominant – profit maximisation is not a corporate objective. Building a regulatory regime around this is misguided.
 - ❖ **Governance:** Dividends from regulated businesses – related to the size of the asset base - perverts the capital market disciplines in privately owned businesses.
 - ❖ **Political:** Regulation of state-based entities by a federal agency.
- ❑ Its not realistic to expect that simply changing the regulatory methodology will solve these problems.
- ❑ But, a variety of possible ‘comparative’ methodologies under the umbrella term “Total Factor Productivity” could provide a way to ensure the AER has regard to comparative assessments in its regulatory decisions. ‘Comparative’ assessments is the key.
 - ❖ Users are disappointed that comparative benchmarking has been all but abandoned by regulators and greater reliance on it would represent progress to us

What do energy users want to see from this review ?

- ❑ Comparative methodologies are susceptible to the claim that they are “unfair” if they fail to account for the specific circumstances that each regulated business may face.
- ❑ But, this is the nature of competitive markets. The regulated businesses that serve our members should be expected to restructure and innovate in response to proxy ‘market forces’, however “unfair” this may seem to them.
- ❑ The AEMC must weigh any detriments and challenges in the implementation of TFP against the failures of the existing building block regime.
- ❑ The AEMC should innovate and show leadership in finding ways to enforce the use of comparative methodologies in the regulation of network businesses.
 - ❖ This is needed now more than ever as energy users face the chill winds of a significant economic downturn and need network businesses that are efficient