

The National Electricity Market 25 years on: outcomes and prospects

Abstract

Twenty-five years have passed since the creation of the National Electricity Market. Has it delivered on the claims of its founders? Network prices (and costs) are much higher now than before the NEM was created, and wholesale prices have not declined over time. In wholesale markets, many complex endogenous and exogenous factors might explain outcomes. We avoid causal judgement in favour of describing and interpreting the actions of policy makers, to understand their judgement of the NEM. On this there is less scope for debate: the three large States have (again) become explicitly involved in directing the development of their electricity industries. This means various combinations of Government procurement of generation and storage, or government power provision. In transmission we find that tensions between central and regional transmission planning that pre-date the NEM, remain unresolved. In authorising the creation of the NEM, the ACCC expressed concern about conflicts of interest where governments also owned regulated networks, but said that statutorily independent regulation would resolve this. The evidence in electricity distribution suggests that the ACCC's concern was well founded but that its solution - statutory independence - was not. Independent regulation of government-owned monopolies has proved to be an oxymoron. In summary, what is now called the NEM seems to bear little resemblance to the designs of its founding fathers. State governments' resumption of control over the development of the electricity sector within their boundaries, has been likened by some to winding the clock back. But in important respects things are quite different to when the NEM began: consumers can now choose their suppliers and there are many private developers offering a variety of generation and storage technologies for connection to the grid, or directly to customers' premises. It is in this context that State governments' new roles are to be contemplated. Much is to be discovered and rediscovered.

Key words: privatisation, competition, electricity markets, network regulation

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