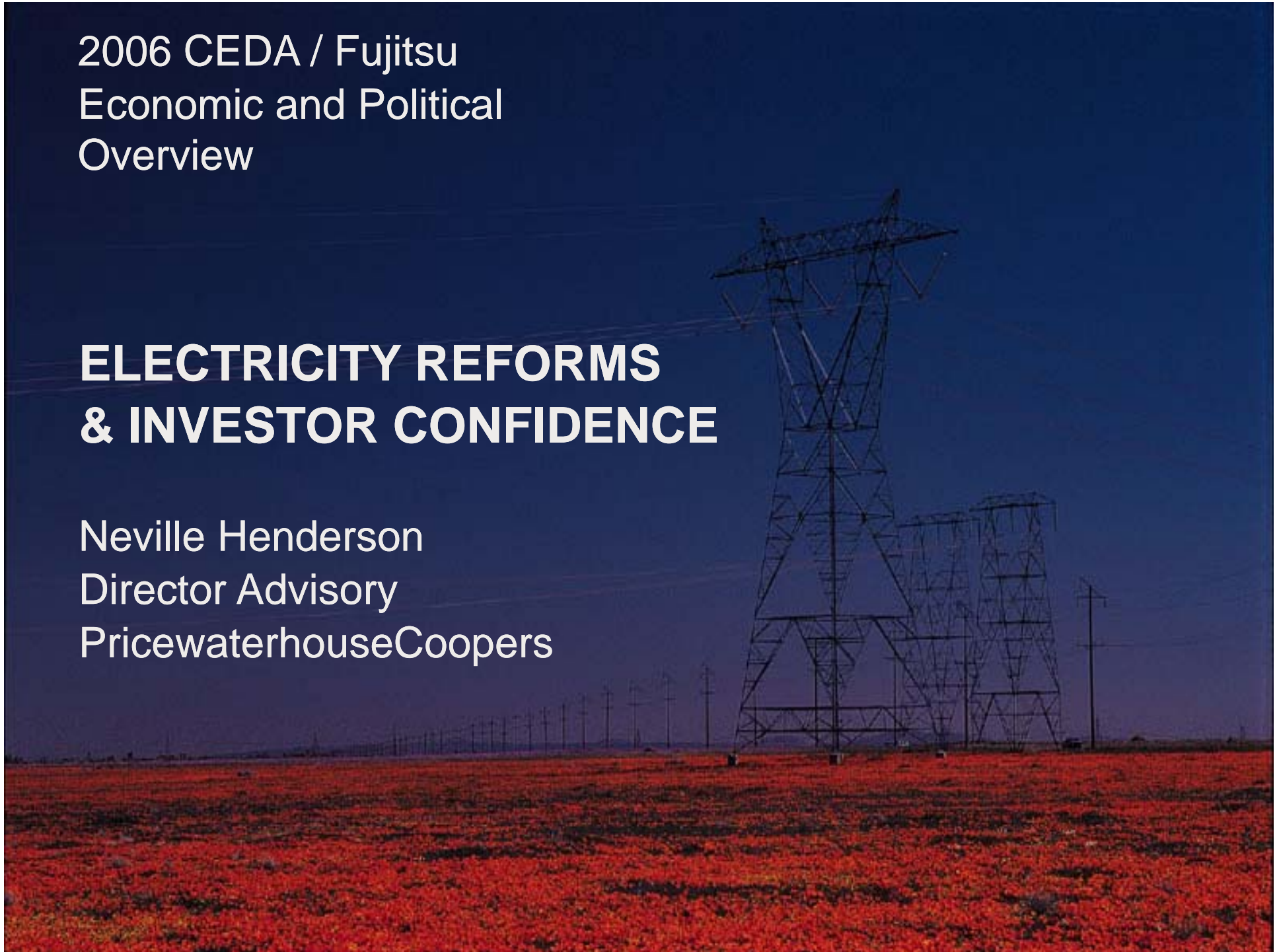


2006 CEDA / Fujitsu
Economic and Political
Overview

ELECTRICITY REFORMS & INVESTOR CONFIDENCE

Neville Henderson
Director Advisory
PricewaterhouseCoopers



FINANCIAL REVIEW

National push to fix power blackouts

- **States to debate energy gridlock**
- **Suppliers want rules relaxed**

“Power industry wants governments to focus on the stop-start progress being made towards a national market, including a review of tough anti-monopoly restrictions on investment in interconnectors between the states”

Thursday 9 February 2006





COAG 10 February 2006

New National Reform Agenda

Energy Sector Reforms Initiatives

- **Improve price signals for energy investors and customers**
- **Strengthen the “national character” of the electricity transmission system to support an efficient national market**
- **Reaffirmed commitment to implement national energy market structures to foster competition.**

Climate Change Reform Initiatives

- **Climate Change Plan of Action**
- **Commonwealth and States to work co-operatively**
- **Accelerate conversion to low emissions technology and practices**

Important decisions on education and training



Dec' 1998

June 2001

Dec' 2002

Dec' 2003

July 2005

Feb' 2006

NEM commences

COAG Commissions independent strategic review of energy market directions.

Parer Report – Towards a Truly National and Efficient Energy Market

MCE finalises its position on Energy Market Reform

Revised NEL, NE Rules AEMC & AER Commence

Another COAG Review – Energy Reform Implementation Group – report end 2006

promises

promises

promises INVESTOR CONFIDENCE ??



COAG
New
National
Reform
Agenda

Improve Price Signals

Roll-out of Electricity Smart Meters - Issues:

- Real time display of usage and price
- Trials indicate 10% savings on power bills
- Success of petrol “shopper docket”
- Need price alignment to critical intervals and education.
- Real benefits will come from integrated smart appliances
 - Inertia in changing appliance stock
- Data handling will need care to avoid cost blowouts



COAG
New
National
Reform
Agenda

Energy Reform Implementation Group

ERIG to develop implementation plans for:

- Achieving “national character” of transmission
- Fostering competition

ERIG to report, by end 2006, on proposals for:

- Achieving a fully national transmission grid
- Measures necessary to address structural issues affecting ongoing competitiveness and efficiency of the electricity sector
- Measures necessary to ensure transparent and effective financial market to support energy markets.




COAG
New
National
Reform
Agenda

Strengthen “National Character” of Transmission System

Agreement to further develop the national electricity grid in a manner that provides energy users with the most efficient, secure and sustainable supply of electricity from all available fuels and generation sources in the NEM.

Challenges for ERIG

- to reconcile development objective with NEM objective - *to promote efficient investment in, and efficient use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system.*
- clarify what IS the national transmission grid and ITS FUNCTION.



Key Transmission Issues

The transmission problem

- Numerous bodies share responsibility for delivering transmission outcomes
 - Functional and geographic fragmentation
 - No national accountability for grid planning and development
- No incentives on transmission for optimal market outcomes
- Confusion in the market around interconnector investment

Governance arrangements?

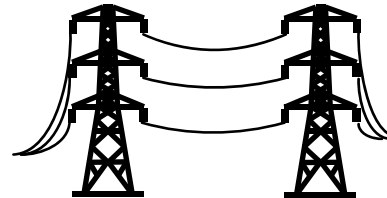
Key
Transmission
Issues

REGULATORY
FRAMEWORK

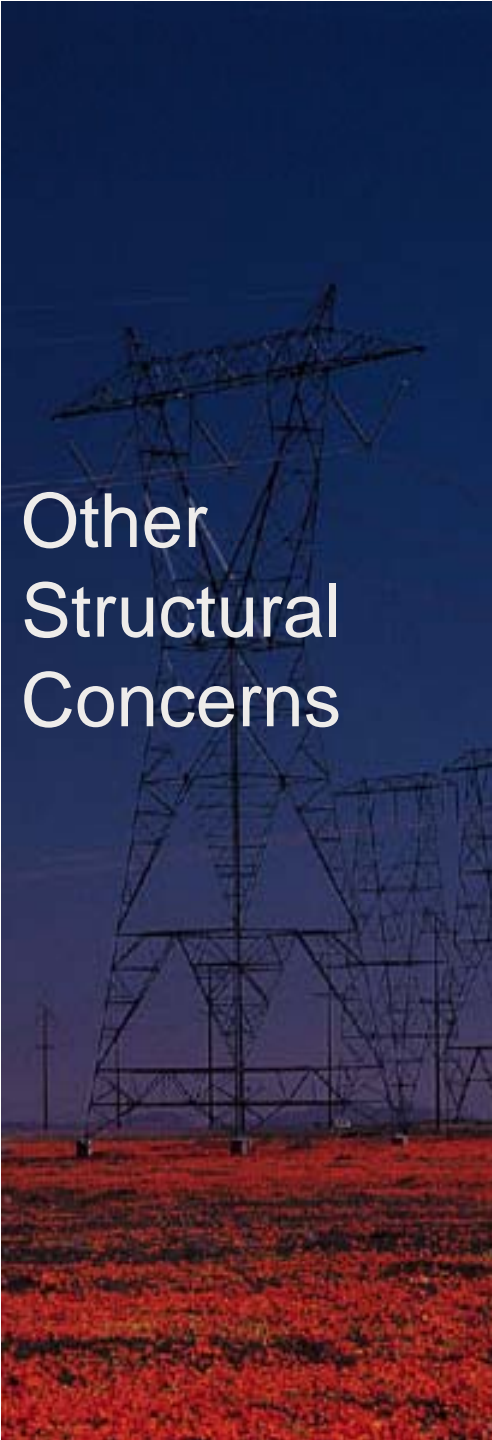
MARKET
IMPACT
GOVERNANCE

CORPORATE
GOVERNANCE

NATIONAL



TRANSMISSION



Other Structural Concerns

Investment impediments

- Propensity for Government driven new investment in generation
 - Undermines private investment
 - Government are not good at picking winners
- Another round of structural reform in the pipeline (NSW and Qld) – long digestive period.
- Perception of rule making and market development still in the hands of Government
 - Should industry have more of a say in the market arrangements ?
 - Would there be greater traction and quicker resolution

**Continuing uncertainty on market
and structural reform acts as a
BARRIER TO INVESTMENT.**



Regulatory Concerns

National Approach to Regulation

- Need to create right environment for infrastructure investment (generation, electricity and gas networks)
- Plethora of national and regulatory arrangements adds significant compliance costs to industry
- AEMC and AER established but do their governance and structural arrangements hinder achievement of “world class regulation”.
 - Structural and resource issues
 - Is the AER just a “rebadged” ACCC
 - Competitive neutrality concerns – owners of AER and AEMC are also asset owners
 - Should AER adopt “shot gun” approach to regulation of many networks – Ofgem approach?

Has enough been done to give investors confidence ?



Regulation of Retail

National regulation ?

- Removal of price caps requires confidence that there is an appropriate level of competition at retail level
 - what defines “appropriate level”
 - can it be consistently applied/accepted across all jurisdictions
 - does government ownership of most generation in Qld and NSW create a barrier entry to the retail market?

**Investment confidence requires
positive action from governments
not just words**



COAG New National Reform Agenda

Greenhouse & Climate Change

- COAG plan for collaborative action
- Is more than collaboration needed ?
 - Harmonise existing schemes, OR
 - Replace with a single national scheme
- Fragmented state and national schemes
 - electricity consumers bear unequal cost burdens
 - cost effectiveness also varies
 - Federal MRET
 - NSW NGAC
 - Qld GEC
 - potential increased MRET targets to apply in Victoria and SA

Still a climate of uncertainty

ELECTRICITY REFORMS & INVESTOR CONFIDENCE ?

COAG's decisions

- In short term, unavoidably heighten investor uncertainty
- In long term, offer genuine promise of competitive neutrality, improved transparency and liquidity in financial markets and improved price signals.

+

A more stable regulatory framework and the removal of barriers to competition

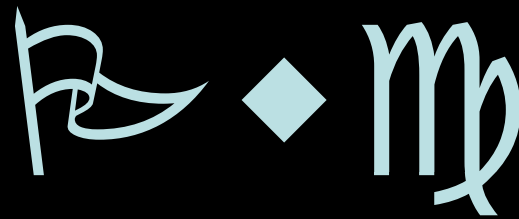


Prospect of an improved investment climate.



A more stable regulatory framework and the removal of barriers to competition

Prospect of an improved investment climate.



Your worlds



Our people