

# Private Sparks Hot Debate

[Energy](#) | [Alan Moran](#)

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Following Victoria's electricity restructuring and privatisation there were massive generator performance improvements. Gradual increases in demand have whittled away the consequent excess supply, bringing increased wholesale prices over the past year. But last month NEMMCO, the Australian electricity market manager, issued a report that deflated fears of an electricity shortage in the coming summer. By February of next year, half a dozen new generators in Victoria and South Australia are now expected to increase capacity by 750 MW or 7 per cent.

What this flurry of new capacity building demonstrates is that markets, if allowed to work, bring their own cure to shortages.

It also shows that Victorian Energy Minister Candy Broad was right to resist proposals for the government itself to finance extra generation. Not only do the latest NEMMCO estimates show such actions are unnecessary, but Government provision of new plant also undermines the incentives of private sector providers. As a result, the short term relief stores up long term problems---and the outcome can require government to administer steadily increasing 'fixes' until it controls the industry. Then it's back to the inefficiency of the bad old days.

What goes for new generators, broadly applies to new transmission links. Increased demand for electricity can be accommodated by building new plant or transporting it from somewhere else. But if the government builds new transmission this crowds out the private sector, undermining its incentive to invest in both new plant and new transmission.

For this reason, the Victorian Government has acted cautiously and avoided building or offering guaranteed payments for new electricity plant or transmission links.

However, the issues are more complicated when investments can piggy-back on a facility which already has guaranteed payments. This is the case with the SPI Powernet's Snowy link between Victoria and NSW. A report by Vencorp, the Victorian market manager, concluded that the link's capacity can be upgraded by 400 MW at a cost of only \$43 million. That's a bargain price for a link equivalent in size guaranteed payments to Basslink from Tasmania with its price tag of \$500 million. And it would cost \$400 million for a similar sized new generator.

The challenge for Minister Broad and the regulatory bodies is for the facility to proceed without this jeopardising other private investment. And the difficulties are intensified because the additional capacity of the link will vary. The policy trick is to arrange for private provision to add to the capacity from the Snowy in a way that allows the Victorian consumer and Powernet to share the gains.

But a further policy complication is that the NSW Government wants permission to build a totally new transmission link from NSW to South Australia and have it paid for by a compulsory customer fee. It is more difficult to accommodate this without undermining private sector investment incentives and regulators and the Victorian Government needs to ensure the two proposals are treated separately.

These are just a few of the unresolved issues left in the wake of the momentous changes in the electricity industry. None of them are insoluble

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