

Lessons from Australia's National Electricity Market 1998-2018: the strengths and weaknesses of the reform experience

EPRG Working Paper 1927

Cambridge Working Paper in Economics 1972

Paul Simshauser

Abstract Australia's National Electricity Market (NEM) commenced in 1998 and after two decades it is timely to reflect on the strengths and weaknesses of the reform experience. The centrepiece of NEM reforms was the energy-only wholesale market and accompanying forward markets, and for most of the past 20 years it has displayed consistent economic and technical performance. But missing policies relating to climate change, natural gas and plant exit has recently produced results that have tested political tolerances. The piecemeal and random interventions that are now following are likely to inflame rather than resolve matters, at least over the near term. Network policy failures in the mid-2000s led to sharp regulated tariff increases from 2007 onwards. These policy problems were largely cauterized by 2012 but regulatory timeframes and business inertia meant network tariffs didn't stabilise until 2015. The retail market has been forced to deliver sharply rising prices, and in consequence the problem of rising prices has been conflated with price discrimination; a largely unhelpful development in an otherwise workably competitive market.

Keywords Microeconomic reform, energy-only markets, network regulation

JEL Classification D52, D53, G12, L94 and Q40.

Contact p.simshauser@griffith.edu.au
Publication July 2019