



The Ugly, the Bad and the Good – an Alternative View on Electricity Liberalisation from a Large Industrial User

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The “Good” - Regulators say they are on the consumer’s side



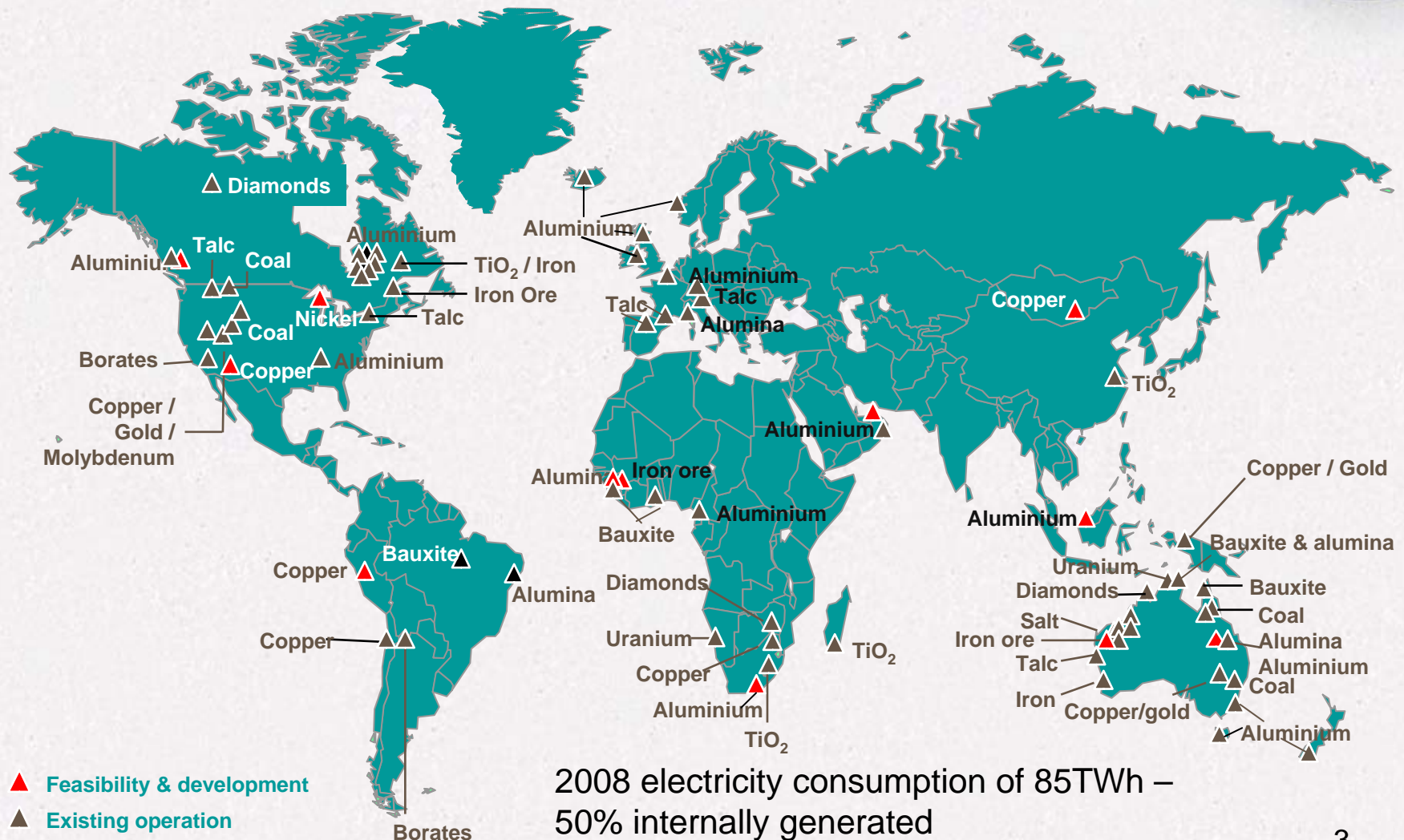
The national electricity market objective is to promote efficient investment in, and efficient use of, electricity services for the long-term interests of consumers of electricity with respect to price, quality, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system.

National Electricity Law – Australia

Protecting consumers is our first priority. We do this by promoting competition, wherever appropriate, and regulating the monopoly companies which run the gas and electricity networks.

OFGEM Website

Rio Tinto is a large, geographically diverse international mining house



More “Good” – what large consumers need



Active contract market involving:

1. Wholesale prices reflecting long run capital costs
2. Sharing the risk on fuel costs with active hedging markets available to consumers
3. Pricing of monopoly poles and wires reflecting efficient, benchmarked cost levels
4. High level of grid reliability and security
5. Carbon cost reflecting the scope of international climate agreement and the carbon intensity of their generation source

The “Bad” – liberalised markets have not always achieved these aims



- Initial success in lower prices
- Over time generators able to exercise market power
- Governments and regulators continue to intervene in liberalised markets e.g.
 - retail price caps
 - mandatory renewables

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Significant challenges to regulators



- How to encourage competition where it is possible and efficient regulation where it is not?
- How to ensure a smooth transition to low carbon power?
- How to ensure costs and benefits are spread fairly across all stakeholders?
- How to ensure regulatory models adjust to the changing evidence?
- But risk if this fails – return to old style Government regulation?

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- But risk if this fails – return to old style Government regulation? **AND THAT COULD BE “UGLY”**