

A policy framework for Australia's infrastructure

ECONOMIC AND SOCIAL OUTLOOK CONFERENCE
Melbourne University
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THE RECENT INFRASTRUCTURE DEBATE



- BCA paper

- Dalrymple Bay

- RBA

- Treasurer

- All in hand

- MCE (energy)

- Auslink (transport)

- NWI (water)

- Export Infrastructure Taskforce

- no crisis ...
- ... but many problems

- Crucial media focus

- PM engages

- COAG enthusiasm

SIX GUIDING PRINCIPLES

1. Use infrastructure pricing to send the appropriate signals to influence demand and supply
2. Establish competitive markets wherever possible
3. Involve the private sector as much as possible
4. Where regulation is needed make it national, and soundly based
5. Do not seek to pick winners
6. Take a federal approach to infrastructure policy

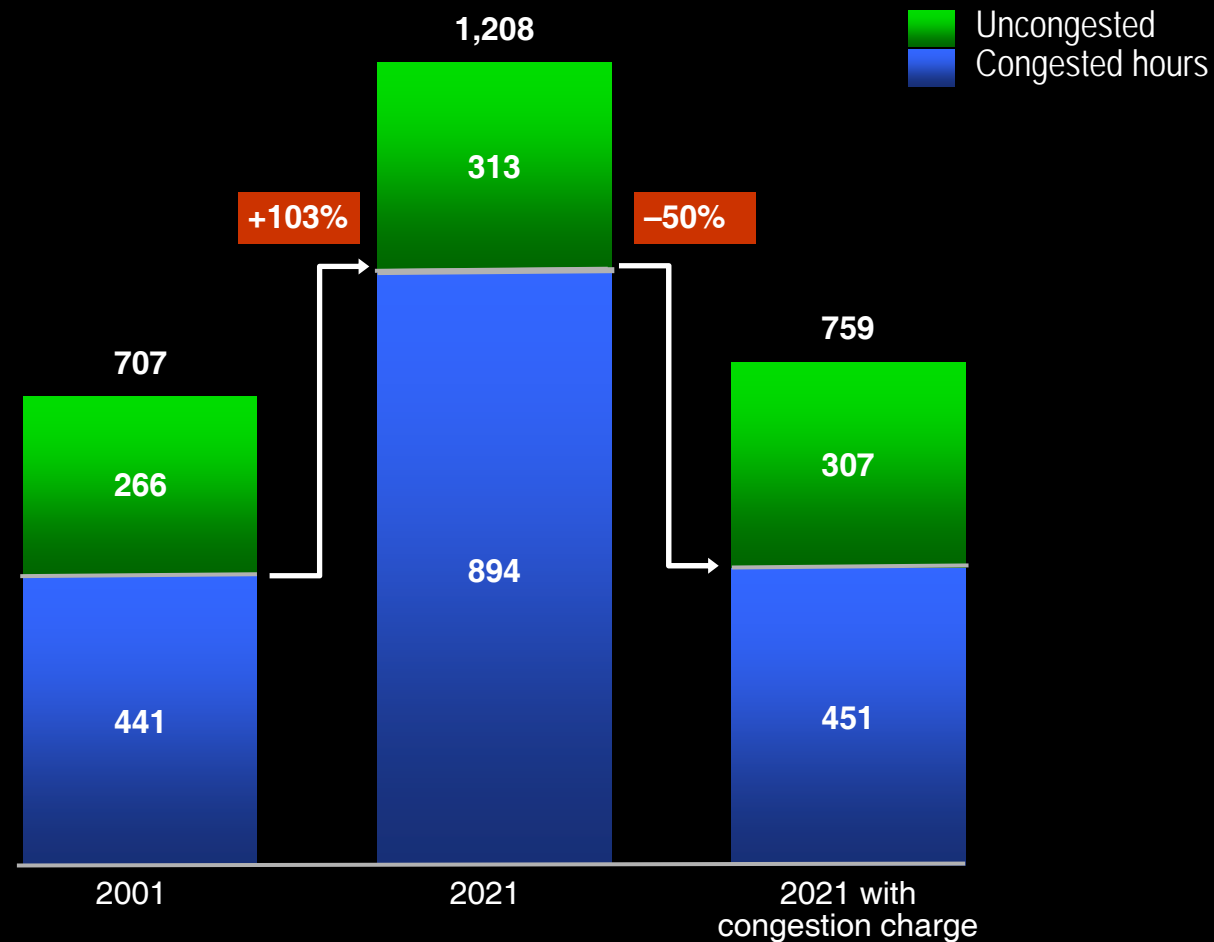
1. COMPARISON OF URBAN WATER PRICES

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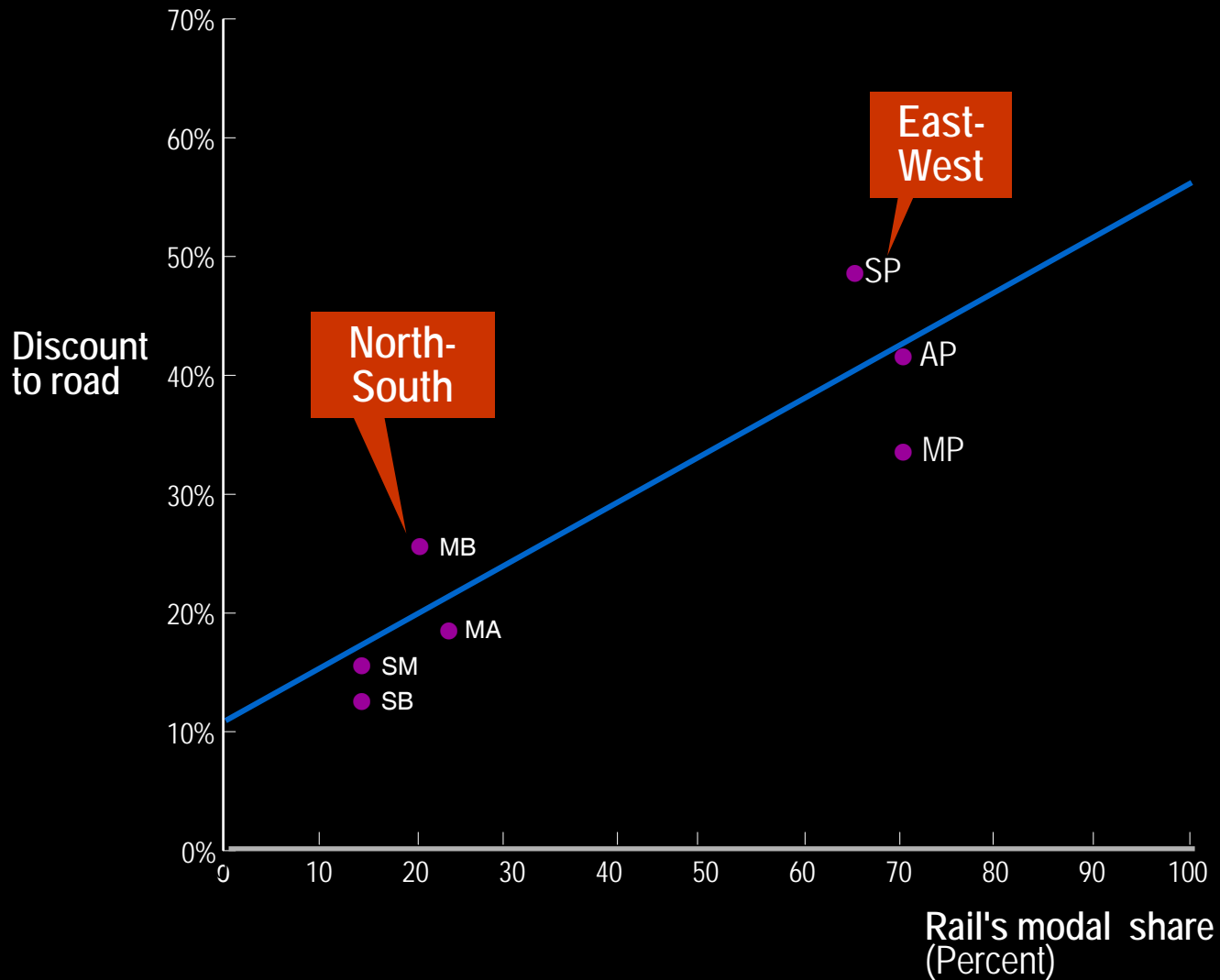


1. IMPACT OF A CONGESTION CHARGE* IN MELBOURNE, AM PEAK

Congested and uncongested vehicle hours
Thousand hours



1. RELATIONSHIP BETWEEN PRICE DISCOUNTS AND MARKET SHARE



1. GREENHOUSE PERSPECTIVES

POLICY UNCERTAINTY

- SA announced plans for 60% emission reduction by 2050
- VIC targeting 10% renewable energy
- NSW and Qld have separate schemes
- At least 4 States suggesting cap-and-trade emissions trading scheme by 2010
- Commonwealth encouraging cleaner fuel technologies
- Prime Minister favouring nuclear generation

PERSPECTIVES

- The cheapest power source (coal at ~ \$30-35MWh) has the largest emissions and therefore the greatest risk of future greenhouse "taxes"
- The more expensive fuel sources (gas at ~ \$45) will not currently get dispatched as base load in the NEM
- Wind power only generates when the wind blows and so decreases the expected return from new base load generation

2. ESTABLISH COMPETITIVE MARKETS FOR INFRASTRUCTURE

SECTOR

- Telecommunications

- Urban water

IMPEDIMENT TO SOUND MARKET STRUCTURE

- No separation of monopoly network and competitive retail

- Allow access to monopoly pipes and competitive supply from recycling, desalination and rural/urban trading

3. MAXIMISING THE PRIVATE SECTOR ROLE

- Private

- can be focussed and provide strong performance incentives



- Public

- responsive to community views, the process is as important as the outcome, many “higher ideals”
- suits policy, regulation and some social service provision

- Works best when can define clear and stable infrastructure provision objectives

- Will complicate infrastructure provision with too many objectives so less efficient/poorer service levels

4. SOUND RATHER THAN "LIGHT HANDED" REGULATION

REGULATION REQUIREMENTS

- National infrastructure regulation
- Uniform approaches to regulation
- Soundly based regulation

CURRENT ISSUES

- Much State-based road and rail regulation
- Different rural water metering/accounting
- Road and rail competitors differently regulated
- Bias against building ahead of demand
- Strong incentives to cut costs, poor incentives to maintain/improve service

5. SYDNEY'S WATER COST COMPARISON OF INDIRECT POTABLE RECYCLING AND DESALINATION

DESALINATION

Reverse osmosis desalination (including seawater intakes, outlets, land acquisition)	1,450
Transfer, connection to water grid	350
Cost escalation, risk, capitalised interest	710
Total capital cost	\$2,510m
Operating cost, including \$25m pa for "greenhouse gas offsets"	\$165m pa

POTABLE RECYCLING

Treatment plant, movement of sewerage	1,770
Transfer of recycled water to Warragamba	1,320
Cost escalation, risk, capitalised interest	755
Total capital cost	\$3,845m
Operating cost	\$175m pa

6. TAKING A FEDERAL APPROACH

DRIVER

- Combine strengths
- "Cover" for difficult change
- Physical connection
- Common approaches lowers transaction costs

ELABORATION

- States deep knowledge, Commonwealth ability to stand back
- "United we stand ..."
- Rural water, roads, and track, transmission lines
- E.g. national urban water access regime, quality standards

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