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PM's power plan can't fix shock

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Illustration: Eric Lobbecke Source: The Australian

JULIA Gillard's announcement yesterday that she would take action to "save families up to \$250 a year on electricity bills" is readily understandable. With a long, hot summer in prospect, Australian families are in for an electric shock.

But Gillard's efforts to blame Coalition governments for the price hikes are just more of the finger-pointing that has poisoned relations between her government and the states. Were Gillard serious about cutting bills, she would get rid of green imposts that hit consumers for no discernible environmental benefit, and encourage the speedy privatisation of inefficient, state-owned power businesses. Instead, she is doing the opposite.

That families will suffer from high electricity charges is undeniable. With airconditioning ubiquitous, household power consumption surges in hot summers. At the same time, electricity prices are now 40 to 50 per cent higher than when Labor came to power in 2007 and have increased by 10 to 20 per cent in the past year alone.

So Christmas bills will bring a double whammy: higher quantities consumed, and a steeply increased price per unit.

In Queensland, for example, the typical household will consume 50 to 100 per cent more power in a hot summer than in the winter and spring months. With the price 10 to 20 per cent higher than last year, that will translate into a slug of \$100 compared with last summer's bill and \$300 to \$400 more than last spring's.

Why charges are now so much higher is no mystery. Again, consider Queensland: climate change charges built into electricity prices have increased tenfold since 2007-08, and now exceed \$1 billion a year. In 2007, Queenslanders paid less than 3 cents in the dollar on climate change imposts on electricity; now, they pay 17cents.

With the carbon price set to increase by nearly a third over the next five years, that share is only going to rise. Indeed, despite everything Gillard says, forcing up electricity prices, thus inducing households to slash their consumption, is crucial to her government's climate change policies: as Treasury said in its carbon tax report, reducing "electricity demand is an important source of abatement, comprising over 40 per cent of the (target) cumulative abatement to 2020".

To kick-start that choking of demand, electricity generation costs alone seem set to rise by between 50 per cent and 145 per cent over the period 2008-2015. And network costs (the costs of transmitting and distributing electricity) have been rising too.

Those costs, that account for about half the average household bill, have increased by 77 per cent since 2007-08. In large part, that reflects the cost of replacing network assets installed in the electricity investment surge that went from the late 1960s to the 80s.

But greater spending has also been driven by the need to strengthen the network to cope with rising peak demand.

And adding to the cost pressures, the NSW and Queensland Labor governments imposed tougher reliability requirements in the early to mid 2000s, following strong public reaction to widespread blackouts.

Unfortunately, exactly like the National Broadband Network, those tougher reliability standards were never subjected to cost-benefit appraisal.

And exactly like the NBN, all the evidence suggests that had they been, considerable savings could have been made: a recent review in Queensland recommended technical changes that would reduce network costs by about 20 per cent without compromising reliability.

The savings would be even greater if those networks were privatised. It is no coincidence that in Victoria, where the Kennett government sold off the power assets, network charges per customer have actually decreased by 12 per cent in real terms since 1995. And the Queensland electricity network review concludes that removing union feather-bedding and poor management practices arising from government ownership would cut network costs by \$1.4 billion over five years.

However, securing those savings for consumers is not on Gillard's agenda. True, barely two months ago, a government submission to the Senate Select Committee on Electricity Prices claimed "the Australian government has a clear path for better functioning energy markets through the progression of a set of critical reform issues". Those critical issues include "privatising government-owned energy assets" as "continued government ownership is impeding greater competition and efficiency, and reduces market confidence by creating uncertainty and risk for private sector investors".

But since then the unions have complained. And Gillard has once again caved in, writing to the Electrical Trades Union that her government "has not and does not advocate for the privatisation of electricity assets".

Instead, Gillard's response to mounting consumer anger is yet further tinkering. A Mickey Mouse "consumer challenge panel", doubtless offering more paid appointments for the government's friends, will be established in the Australian Energy Regulator, which forms part of the Australian Competition & Consumer Commission. And the government appears to be backing changes the AER/ACCC has sought that would give it greater powers to disallow proposed network investment.

The regulator's calls for greater powers are not supported by credible evidence. After all, until 2006, the AER/ACCC had the powers it now seeks. But nothing suggests the changes that occurred then prevented it from disallowing unnecessary investment.

Indeed, compared with before 2006, the share of disallowed transmission investment has risen from 4 to 10 per cent. And state governments are struck by the inconsistency between the AER/ACCC demanding greatly increased scope to write off state assets while conspicuously abstaining from imposing any value for money tests on the commonwealth's NBN, which it has the power to do and which would reduce slugs on future broadband prices.

But that doesn't mean state governments should do nothing. Rather, they should impose rigorous cost-benefit tests on climate change charges and on reliability standards, and demand the commonwealth do the same. They should privatise network businesses and reform IR laws that entrench inefficiencies. And they should scrap price controls over retail electricity markets that are already competitive.

None of that will prevent the nasty shock that awaits families. Nor will it stop Gillard from blaming the states for the costs of her policies. But without those reforms, our electricity mess will only go from bad to worse.