

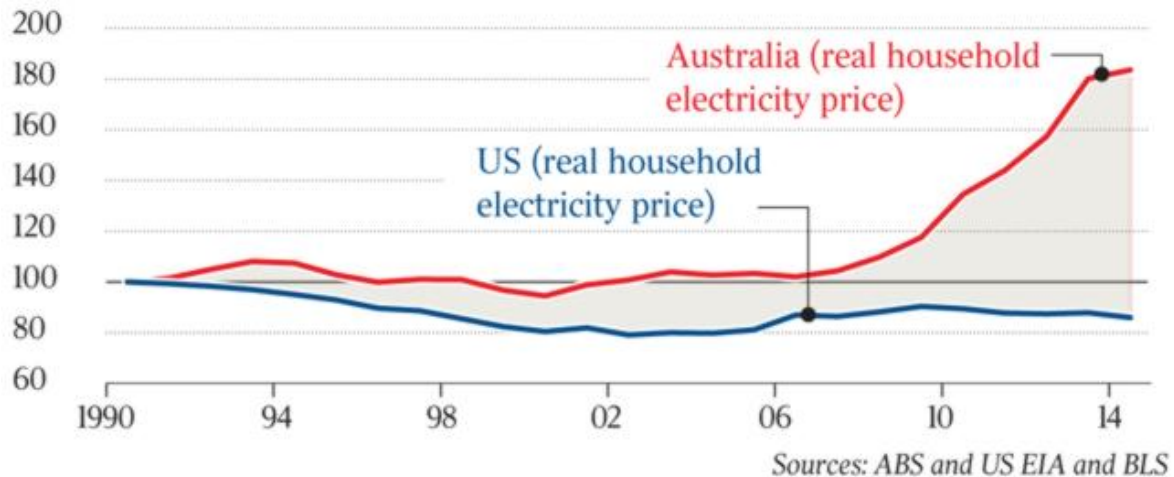
THE AUSTRALIAN

Cheaper, efficient power to the people

HENRY ERGAS THE AUSTRALIAN MARCH 02, 2015 12:00AM

Household electricity price growth, Australia v US

Index, 1990=100



Electricity price growth. Source: TheAustralian

BETWEEN 2008 and 2014, electricity transmission and distribution costs increased by some \$400 per household in Queensland and New South Wales, where the poles and wires are government-owned, but by around \$250 per household in the privatised systems of Victoria and South Australia.

The result, a study for Uniting Care recently found, is that even in rural Victoria, where lower population density causes higher costs, electricity prices are 30 per cent below those in Brisbane. The gap between Melbourne on the one hand and Brisbane and Sydney on the other is greater yet. And while prices are lower in the privately owned systems, network reliability is higher.

The causes of those differences are no mystery: the government-owned poles and wires companies are inefficient. And it is also well-known that much of the burden of paying for that inefficiency falls on poorer households, who spend a larger share of their income on power bills. But don't expect that to sway Labor from its anti-privatisation crusade, as it puts the interests of public sector unions above those of consumers.

Why the unions want the poles and wires businesses to remain government-owned is readily understood. As Queensland's Independent Review Panel on Network Costs concluded, "the strict commercial charter that should apply (to those businesses) is often compromised by the collateral social and economic objectives of government".

Those objectives have included vast capital programs, causing “over-engineering of the network and excessive capital and operating costs”. Thanks to those programs, which lacked any “economic analysis of the benefits relative to outcomes acceptable to consumers”, the government-owned businesses created thousands of highly unionised jobs, with Queensland’s Ergon Energy (whose capital expenditure has been about twice the level that could be justified) nearly doubling its labour force in a decade. As that happened across the government-owned businesses as a whole, labour productivity in the electricity, gas and water sector plummeted, and is now some 30 per cent lower than a decade ago.

But it isn’t governments that have had to shoulder the costs of a spending binge that would make Paris Hilton blanch. Rather, with their outlays attracting a guaranteed rate of return, the government-owned businesses doubled their prices from 2008 to 2014. And as prices increased so did profits, with allowed returns rising 50 per cent in the 2012-13 to 2016-17 regulatory period.

Queensland and NSW families therefore each pay for the featherbedding through a hidden tax of \$70 to \$120 a year, to which must be added the higher prices consumers bear every time they buy electricity-intensive goods and services.

None of that, however, should come as news — least of all to Labor. Nor can it be dismissed as the ranting of “free market” doctrinaires. On the contrary, it was Julia Gillard who, just three years ago, denounced state governments for using their control over “lucrative electricity assets” to increase their revenues “at the expense of the family electricity bill”. And then Energy and Resources minister Martin Ferguson called continued government ownership “the greatest barrier” to an efficient electricity market.

Why then is Labor now so firmly in the anti-privatisation camp? The answer, according to Chris Bowen, is simple: the poles and wires are monopolies; and Labor “does not privatise monopolies”.

Bowen must be having a senior moment. Far from refusing to privatise monopolies, Bowen’s mentor Paul Keating showed no hesitation in selling the airports, monopolies if ever there were any, and in privatising the lucrative blood processing monopoly held by CSL. As for the Rudd and Gillard governments, in which Bowen was a senior minister, they committed to “sell down the government’s interest in [NBN Co] within five years after the network is built and fully operational”, despite the network being, in Bowen’s own words, a “natural monopoly”.

And they were right to do so: for the commercial disciplines private ownership brings are even more important in monopolies than in vigorously competitive markets.

After all, in a competitive market, the Darwinian battle for survival weeds out the slack and lazy, as consumers turn to alternatives; not so in a monopoly. With no rivals threatening their livelihoods, the managers of publicly owned businesses merely need to keep government onside to rest easy. And if that involves politically motivated spending and sweetheart deals with unions, taxpayers, unlike private investors, can’t vote with their dollars, selling their stake and refusing funding until the business cuts its costs. Without private owners to scrutinise earnings and sack incompetent boards, the quiet life is always the most lucrative

monopoly rent of all.

Nor can regulation protect consumers when commercial disciplines are lacking. Indeed, Gillard herself recognised that government ownership has only impeded regulators from doing their job, as states time and again using their powers to impose outcomes an independent regulator would never accept. Moreover, as the Queensland review emphasised, with “the national regulatory regime moving towards greater use of incentives to drive improved performance”, regulation’s effectiveness increasingly depends on how responsive the electricity businesses are to the carrots regulators proffer: yet the government-owned businesses have shown little interest in those incentives, preferring the quiet life to the conflict tackling antiquated work practices would involve.

No wonder Rod Sims, chairman of the Australian Competition and Consumer Commission, has said that had the poles and wires “been owned by the private sector, we’d probably have lower electricity prices than we do now”.

With Bowen, however, that cuts no ice. Long gone, therefore, are the days when finance minister Lindsay Tanner could boast that Labor had decisively turned its back on “producerism”, which “enriches select constituencies at the expense of greater prosperity” by tolerating “economic inefficiencies, restrictions and distortions”. Instead, Tanner claimed, “modern Labor’s” defining feature is that “consumer interests come first”. But “modern” is oh, so 1980s; in today’s Labor, it is the unions who are number one.

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