

# Record shows privatised power is cheaper

- *Alan Moran*
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**THE poles and wires of electricity networks are natural monopolies, accounting for 60 to 70 per cent of household consumers' costs. Their ownership remains highly politicised 20 years after the Kennett government in Victoria opened the book on Australian privatisations. At the time, claims were made that private owners would milk the consumer and cut corners by avoiding necessary reinvestment and maintenance.**

Australia has provided a living test of the merits of those claims, with South Australia and Victoria privatised, and Queensland and NSW retaining public ownership. The outcomes have been the opposite of those prophesied by opponents of the reform, both in terms of network reliability and network costs.

Year after year regulators have found the private networks' reliability performances to be significantly better than those of the state-owned systems. One reason for this is the greater concern privately owned companies have for their customer reputation.

In terms of customer prices, history has revealed dramatically superior performances by privately owned networks. The extent of these was unexpected since, irrespective of ownership, prices all monopoly network businesses are allowed to charge are regulated.

Aside from raising money, a goal of privatisation was always to bring about greater cost disciplines. However, it was recognised that achieving this would face resistance from the heavily unionised workforce and, indeed, in the 1990s one of the privatised Victorian distribution businesses was confronted with a long industrial relations campaign against new work methods. But the new owners largely eliminated waste.

That aside, it was anticipated cost savings the privately owned businesses might make would largely go to higher profits rather than lower prices; governments thought this was still a satisfactory outcome in view of the very high prices they had received for the networks.

In fact the outcome on prices has brought an additional bonus.

Work, including that financed by energy consumers and conducted for UnitingCare, has demonstrated network charges in NSW are twice those of Victoria (Queensland's are even higher). The average household makes a saving of \$400 to \$500 a year with a privatised network.

The reasons for this stem from the interplay between the regulated businesses and the regulator. In setting price caps the regulator needs to scrutinise future likely costs of each business. In doing so the regulator relies on information the regulated firm provides. This inevitably leaves the regulator at an informational disadvantage to the business, which will be seeking to maximise the prices it can charge. Moreover, the regulator will be wary of pushing cost reductions too far to avoid being blamed if this ends up forcing cutbacks that jeopardise

supply. In Queensland 10 years ago the effects of blackouts, claimed to be derived from overzealous regulated price determinations, led to the tragic suicide of the largest distributor's chief executive.

Though the prices are regulated on the same basis for all network businesses, government and private firms are managed differently. With government firms, like any public service institution, management spends whatever it is permitted — it is a badge of shame for an executive to underspend their allocated budget.

It is different for private firms, where the owners are in control and their overriding goal is profits for their shareholders. Directors will scrutinise all budgets, looking for cost savings and redirecting them to profits. In doing so, they inadvertently demonstrate to the regulator that the business can be run more frugally than has been claimed, and the next price reset starts from a lower base.

Hence we see the differing outcomes in customer costs between the state-owned Queensland and NSW systems and the privately owned Victorian networks.

Unfortunately there are strong politically motivated and vested interests against privatisation. Unions fear it will mean lower membership and fewer featherbedded jobs. They are right — the \$400 to \$500 per household that government ownership entails goes to excessive labour and other costs.

Many leftists are philosophically opposed to private ownership and lend assistance to campaigns such as the Not4sale campaign that was significant in ousting Queensland's Newman government. In NSW a similar campaign, Stop the Sell Off, is being conducted.

There was inadequate scrutiny of scare campaigns about privatisation in the Queensland election partly because UnitingCare declined to publish its information demonstrating private owners' lower costs until after the poll.

That and other material is now fully available to allow NSW voters to assess the issue, providing a test of their political sophistication.

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