

Rise in electricity rates offers a chance to grasp nettle of privatisation

[Economics & Deregulation](#), [Deregulation Unit](#) and [Energy](#) | [Alan Moran](#)
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In an attempt to deflect blame for electricity price increases from the carbon tax, Julia Gillard has drawn attention to the high cost of state-owned enterprises' poles and wires businesses and associated profiteering.

NSW households have seen their electricity prices rise by 18 per cent both this year and last. Other states have seen comparable increases.

Half of this year's increase was due to the carbon tax and renewable energy requirements, some of which were introduced by former state ALP governments. The other causes were those identified by the Prime Minister: increased charges for the price-regulated poles and wires networks.

All governments are fearful of copping the blame for electricity price increases. State governments in Queensland and NSW are also conscious of being particularly vulnerable to a share of this criticism since they own their states' network businesses. Gillard has just turned up the heat on them.

Because they face no competition, government-owned monopolies such as the networks businesses are highly susceptible to cost padding. Prices in the NSW and Queensland state-owned electricity supply networks compare unfavourably with those in the Victorian and South Australian private systems.

Distortion through government ownership and generous decisions by price regulators on monopoly networks is compounded by regulation of prices at the retail level. Direct government control of retail prices amplifies concerns of a political backwash from electricity price increases.

In NSW and Queensland 50-60 per cent of households are on government-regulated retail tariffs. South Australia also has regulation of household electricity prices but at a relatively high level. In Victoria, retail prices are totally unregulated.

Recently Queensland sought to update its government-regulated household tariffs, a process that brought the Newman government into conflict with the state's largest electricity retailer, Origin Energy.

To fulfil election commitments that would keep this year's price increases on these tariffs to a level attributable to the carbon tax -- about 11 per cent -- the government provided \$60 million compensation to retailers.

Most electricity retailers considered this to be inadequate and, while operating within the letter of the law, Origin initially announced higher increases for customers on similar tariffs to those that are regulated.

The government saw this as a breach of faith and launched a media blitz critical of Origin, which quickly revised its tariffs.

From the vantage point of his state's highly competitive and unregulated market, Victorian Energy Minister Michael O'Brien was recently moved to lecture other state ministers against price caps, which he said "keep costs down temporarily but don't promote efficient investment" and bring an

inevitable catch-up.

Queensland and NSW have not seen the robust competition experienced by Victoria, but they are open markets with a dozen different retailers. Governments can facilitate competition in them by providing price comparators and Queensland already has a "ready reckoner" that enables easy assessment of different firms' offerings.

However, putting the spotlight on alternative retail tariffs, while potentially valuable, can only work if competition is allowed to do its price-reducing job.

And if the poles and wires part of the supply system, which accounts for half of the costs of electricity supply, is not well managed, these costs will swamp any that might become available from more intensive retail competition.

In contrasting the cost performance of state government-owned businesses with those of their private sector counterparts, the Prime Minister has abandoned a lifelong antipathy to privatisation.

Her "road to Damascus" conversion might be self-serving in seeking to draw attention away from the carbon tax, but it also offers the prospect of bipartisan support for full privatisation of the electricity supply industry.

This green light to the governments of NSW, Queensland and WA should be grasped. Privatisation won't counterbalance the cost impositions from the carbon tax but it will help.

Private shareholders, whether in competitive supply industries or in monopoly networks, place far greater downward pressure on costs than government shareholders, whether or not price regulation is in place.

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