Why some power bills are poles apart

Alan Moran, Herald Sun 30 March 2018

Electricity bills have doubled over the past three or four years.

The main reasons are twofold.

First, state and federal governments have required retailers to source increasing shares of the electricity supply from low reliability wind and solar, which receive subsidies from consumers hidden within their bills.

These costs to consumers are amplified by the subsidised electricity forcing the closure of low cost and dependable power stations like Hazelwood and the South Australian Northern Power Station. As the electricity regulator confirmed yesterday, the forced closure of these power stations reduced competition and brought a sharp rise in wholesale prices.

The second cause for the price increases has been increased charges for network use - the poles and wires, which comprises the largest component of household electricity bills.

Victorian and South Australian consumers avoided much of these excessive network costs.

That's because, as shown in a recent report by the ALP tax funded "think tank", the Grattan Institute, excessive network price increases were largely confined to government owned networks.

In fact, the average network cost in the privately owned Victoria system is one third less than that in NSW.

In states where the networks are government owned, the Grattan Institute found evidence of "gold plating". Usually this meant they were overstaffed with union jobs – and unsurprisingly in 2017, the ALP went to the New South Wales state election on a policy no more privatisation. The unions controlling the ALP preferred unproductive jobs for union members rather than cheaper electricity for households and businesses.

Few would be surprised that the Greens, always a dependable guide to poor policy, are even now calling for Victoria's private electricity networks to be re-nationalised.

Because electricity networks are monopolies, they must have their prices regulated rather than allowing commercial rivalry to set a price which is fair and reasonable.

But regulators, being outsiders, can never know what the ideal price setting is and if they set it too low there's a risk of a supply breakdown and if too high the consumer gets a bad deal.

Unlike government businesses, those under private ownership, have no incentives to pad costs and hence the cost-based price goals they seek are likely to be closer to those necessary.

In addition, even if private owners exaggerate their intended spending levels to get the regulator to authorise higher prices, their ownership by shareholders provides offsets this.

That's because if a private firm's management seek higher costs than necessary, as the year proceeds the directors will see opportunities for cost savings and require the management to make these thereby allowing higher dividends.

This in turn gives the regulator a more accurate view into what the firm's real costs are and a better fix in setting prices.

In the case of government firms, there is no shareholder scrutiny to ensure that spending is kept down and no guide offering the regulator a practical insight into the firm's real costs.

The wretched experience that Australians have endured with government control over the electricity industry over the past decade would have been worse were it not for a legacy of competition and privatisation reforms.

It is some consolation to Victorians and South Australians, in particular, that their states' more comprehensive electricity privatisation has left them less injured by government regulation of the industry than those north of the Murray.

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