Privatised power cheaper and better than alternatives

Economics & Deregulation, Deregulation Unit and Energy | Alan Moran Bookmark
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Energy issues are rivalling political scandals as a preoccupation of the news cycle in both America and Australia.

In the US, reduced costs of extracting gas and oil from shale are delivering cheap domestic oil and gas - with implications for renewable energy policy, global gas prices and the US Navy in the Persian Gulf.

Cheaper US fossil fuels have also increased the fretting about greenhouse gas emissions, including by the Paris-based International Energy Agency's climate change activists.

Global energy developments have unpredictable implications for Australia, where electricity prices have risen 72 per cent over the past four years (50 per cent more than general inflation) and the industry's productivity has declined. These experiences have triggered a cascade of reviews including an Energy White Paper and a Productivity Commission inquiry.

Australia's electricity price increases stem from a combination of regulations, carbon taxes, increased demand for peak power and overdue replacements of poles and wires.

Productivity declines owe much to regulations, including excessive reliability standards and requirements to use high cost renewable energy and the paper burden costs associated with this.

Victoria generally comes up smelling of roses in its handling of all three components of electricity supply: retailing, networks and generation.

This is largely due to the reforms that the Kennett government implemented 15 years ago.

Although bitterly opposing these reforms at the time, once in office the Bracks/Brumby government embraced them.

This was partly because they delivered a debt-free Victoria, providing scope for increased spending, although this did not prevent the ALP in government from eventually once again racking up net debts. With regard to retailing, all other state governments interfere in setting final consumer prices. These prices were deregulated in Victoria by the Brumby government.

The regulators in the other states have suppressed retail prices at below costs (though NSW is trying to unwind this).

THE wash-up has been losses imposed on two of the nation's major energy companies, AGL and Origin Energy. Such losses, if sustained, will rebound on consumers by bringing reduced competition or even market exit.

As well as a privatised retailing sector, Victoria has fully privatised its networks and generation.

By any standards, Victoria's Latrobe Valley generators have achieved legendary heights in reducing costs.

With regard to network businesses, Victoria's privatised firms outperform their interstate government-owned counterparts: they have lower costs and, on balance, a better reliability record.

Even so, Victoria could go further in reducing regulatory costs from electricity regulations.

First, it could abandon the subsidies of $75 million on coal R&D - even if there were a potential for breakthroughs, such publicly funded R&D is seldom successful.

Secondly, Victoria could abandon the obligation it places on retailers to buy, at consumers' expense, the surplus energy from rooftop photovoltaics; the subsidy level was previously exorbitant and, although it is being wound back for new installations, considerable costs remain.

Thirdly, the Victorian Government should ditch its scheme involving cross-subsidies to encourage such outcomes as lower energy lighting. Consumers are perfectly capable of trading off cost for economy in choosing their own light bulbs.

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