

Victoria's looming energy disaster

[Alan Moran](#)



Getty Images

[Alan Moran](#)

24 November 2022

A centrepiece of Victorian Premier Dan Andrews' campaign is to renationalise Victoria's privately owned electricity businesses. He claims that the private owners have scammed '\$23 billion in profits off pensioners, families, and businesses'.

The state's electricity assets, previously managed by the State Electricity Commission of Victoria (SECV) were sold under the Kennett government in the 1990s. Kennett inherited a near-bankrupt state.

The SECV had been a drain on government finances due to its excessive levels of staffing. Over-staffing is a hallmark of government businesses but the SECV took the prize for this. At one stage its generation arm employed 25,000 workers. By the time the privatisations were bedded down the elimination of wasteful work practices had reduced that level tenfold to just 2,500 (including contracted staff).

The sell-off of the SECV reaped \$11 billion for the generators and a similar sum for the electricity networks. In today's money that is approaching \$50 billion.

At the same time generators' output was increased by about 30 per cent.

Marxist ALP Premier Joan Kirner had actually already started to reduce the State Electricity Commission's bloated labour force prior to the Kennett's 1992 victory. But Dan Andrews wishes to replicate the waste that characterised the pre-Kennett era. He says he will have '95 per cent renewable energy by 2035, with our plan creating 59,000 jobs'.

In other words, he wants to saddle Victoria with unproductive jobs and to complete the process of replacing high-reliability low-cost electricity from coal and gas with low-reliability, high-cost subsidised wind and solar.

The Kennett government sold its generation assets on the basis that the likely long-term market price of electricity in Victoria was about \$38 per MWh, but increased supply from improved management by the private sector owners meant prices fell to below \$25 per MWh, before rising towards the \$38 per MWh level in the 15 years prior to

2016. In the past five years, electricity prices have escalated as competition from subsidised wind/solar generation have forced coal generators to close. Victoria's price is now \$150 per MWh.

Mr Andrews claimed that the private owners have scammed \$23 billion in profit is ridiculous. Over the past 25 years the profits of the Victorian coal generators have been a tiny fraction of this, and were much reduced by the increased royalties Andrews levied on the coal businesses once they were in private hands. All the original owners on-sold the power stations at considerable loss as a result of the very success of the privatisations increasing supply and depressing prices.

Of course, once the increased supply of wind/solar started to cut-in, electricity prices dropped further. This, and the fact that the subsidised wind and solar facilities forced the coal plants to operate at reduced levels, led to the closure of the giant Hazelwood power station and the subsequent price increase that the Premier is blaming on privatisation.

The shift to wind and solar will cost a great deal in terms of the transmission lines required as a result of the intrinsically greater dispersion and control difficulties inherent in a renewable-rich supply. According to the Commonwealth government a wind/solar dominant system will require fourfold existing costs in transmission wires alone.

Given the investments required, the Premier's foreshadowed \$1 billion to replace the existing generation with wind and solar is absurd, nothing more than a thought bubble. [Alinta](#), the owner in Loy Yang B of a quarter of the state's coal supply, estimates that it would need to spend \$8 billion to replace the firm's present facility with

renewables and batteries. On that basis, the cost of replacing Victoria's 4,730 MW of coal plant is \$38 billion.

And this will require much higher prices and an ever more precarious supply. Households would suffer from these and jobs outside of the electricity industry would be lost as a result of firms' higher energy costs.

Having only ever worked in government, ingrained in Dan Andrews' ideology is a deep suspicion of market processes and private enterprise. Yet a glance at almost every government workplace reveals a picture of inefficiency and waste. That is due to the lack of competition and an absence of a profit motive in driving down costs and stimulating a search for better ways of attracting customers.

Andrews never figured this out and prefers his own fantasies of what is good for the people and how to deliver it. Hence Victoria has an economy wracked with the highest state debt and experiencing the worst economic performance over the past three years. Unfortunately with a Liberal Opposition offering no alternative program to the Andrews socialist drift, Victoria seems poised to descend even further into the abyss.

Alan Moran, was an adviser to the Kennett Government in its reform of the energy market and its privatisations