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State of NSW: Weighing the cost of the privatisation of power

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Beder, Sharon, "State of NSW: Weighing the cost of the privatisation of power" (2011). *Faculty of Law, Humanities and the Arts - Papers*. 1586.

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State of NSW: Weighing the cost of the privatisation of power

Abstract

Successive governments in NSW, of both political persuasions, have tried to privatise electricity despite strong and consistent citizen opposition. Citizen opposition is based on the desire to maintain public control of an essential service as well as awareness that around the world privatisation has led to higher electricity prices and lower reliability of electricity supply.

Nonetheless governments have been pressured to privatise electricity by businesses and banks as well as the federal government. They have also been attracted to the lure of an influx of funds in the short-term to spend on other government priorities, such as urban infrastructure projects, even though government finances will suffer in the long-term from the loss of dividends.

In 1999 the NSW Liberal Party campaigned on a platform of electricity privatisation, promising every ratepayer \$1100 worth of shares or \$1000 cash if they were elected and privatisation went ahead. Despite the bribe, the Liberal Party lost (with a 7 percent swing to Labor) because electricity privatisation was so unpopular. A subsequent NSW Liberal leader, Peter Debnam, referred to any efforts to privatise electricity as 'political suicide'.

The current NSW Labor Government seems to think that it is immune from such an electoral backlash, despite the union and ALP opposition that contributed to the downfall of Morris Iemma as Premier in 2008 when he tried to privatise the state's electricity. That year a Sun-Herald/Taverner Research poll found that 79% of people surveyed were opposed to the government's plans for electricity privatisation even though they were told that it would result in more spending on other infrastructure.

Keywords

power, state, weighing, nsw, cost, privatisation

Disciplines

Arts and Humanities | Law

Publication Details

Beder, S. (2011). State of NSW: Weighing the cost of the privatisation of power. *The Conversation*, (24 March)

24 March 2011, 11.00am AEST

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Disclosure Statement

In 2007 I was commissioned by Unions NSW to prepare a submission on their behalf for the Owen Inquiry into Electricity Supply in NSW because of my previous research on electricity privatisation, most notably my book Power Play published in 2003.

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Attempts to privatise NSW's power have caused major public concern. AAP

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The Taverner poll followed one by the Alliance for NSW Future, a coalition of peak business groups in NSW, which found that 73 per cent of businesses surveyed supported the NSW government electricity privatisation plans. Clearly many business people believe they will be better off with privatised electricity whilst householders believe they will be worse off.

One reason for the difference is that business people are more likely to believe the rhetoric that private owners will be more efficient and able to deliver electricity at lower prices, despite evidence to the contrary. This belief is based on a myth, promoted by corporate-funded think tanks, that state-regulated electricity monopolies are so wasteful and inefficient that private companies competing in a free market could save enough money to both cut prices and make a profit.

However the supposed inefficiency of publicly-owned electricity providers has been shown to be unfounded rhetoric. It is belied by the cumulative evidence of one hundred years of electricity provision all over the world (see [Power Play: The Struggle to Control the World's Electricity](#)). Publicly-owned electricity enterprises have consistently provided electricity at no greater cost than privately-owned enterprises and often for prices that were far less than those charged by private companies. When Victoria and South Australia privatised their electricity prices increased and service reliability declined. It is no accident that South Australia and Victoria subsequently had the highest residential prices of all the Eastern states. Between 1994 and 2002 residential rates in SA increased by forty percent and householders now pay more for their electricity than anywhere else in Australia.

Because of continued state ownership, average electricity prices in NSW fell during this time. The risks to household consumers and retailers associated with fluctuating wholesale power prices have also been avoided in NSW because both retail and generation businesses are publicly-owned. However in 2007 the Independent Pricing and Regulatory Tribunal (IPART) decided to raise prices over the next three years to prepare consumers for a privatised market where competing companies need to charge extra to cover their marketing costs, profits and compensate them for the risks posed by the volatile wholesale market. Another reason that business prefers privatised electricity is that business people are confident that they will be able to negotiate better deals with private retailers and electricity traders than they can get with governments. Governments have a social obligation to keep electricity prices affordable for all, to ensure the disadvantaged are subsidised and more remote electricity users are not penalised with higher electricity prices. This means that historically governments have cross-subsidised electricity supply.

Private companies, freed from these social obligations are able to cut costs by concentrating on more profitable services. They are able to compete for more lucrative customers by reducing unit costs for big users. In this way cross-subsidies are not eliminated but shifted, from disadvantaged individuals to businesses that are more intense users of electricity. The cost of the social obligations, if they are still met, is borne by taxpayers, and the savings are reaped by shareholders and industrial customers.

Price cuts for industrial consumers also come from shifting the burden of paying for other non-commercial objectives associated with electricity provision, such as environmental goals, from electricity rate payers to general tax payers. However such cuts of business are by no means guaranteed. In SA when some 2800 middle-sized businesses became contestable and had their electricity prices deregulated in July 2001, they experienced price increases of

between 30 and 80 percent. Even large businesses, which originally pushed for privatisation and deregulation, found that they were worse off.

In Victoria farmers suffered from the pricing strategies of private companies, Farmers pointed out that private retailers had got around government price caps by increasing off-peak electricity rates by 175 percent and decreasing peak rates to ensure average increases met with the price caps. This particularly affected farmers who take advantage of off-peak rates for many energy intensive activities. As a result many farmers saw their overall rates increase by up to 60 percent. The president of United Dairyfarmers Victoria, Peter Owen, accused the power companies of “pillaging sections of rural Victoria with the Government’s blessing”.

The real beneficiaries of privatisation in NSW will be the two companies that have bought up the bulk of the NSW electricity retail industry and the right to trade wholesale electricity. Origin and TruEnergy, together with AGL, already dominate the electricity industry in Queensland, Victoria and SA and this sale will only consolidate their power to control and manipulate electricity prices. So much for the increased competition that privatisation is supposed to provide! Additional beneficiaries of privatisation are the banks, building societies, insurance companies, and other commercial companies that are able to invest in the these profitable companies or provide loans to them.

The fact that the NSW Labor government has pushed ahead with the sale despite public opposition and the fact that electricity prices have already risen in preparation for the sale, suggests that it is more interested in pleasing vested business interests than protecting the public interest. However, do not expect a Liberal government to reverse the sale, now that the Labor government has done the unpopular deed for them.