

This was published 7 years ago

Why privatising poles won't reduce your electricity bill

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June 10, 2014 – 5.02pm

Privatisation of the poles and wires in NSW will not bring electricity prices down. All it will do is transfer guaranteed returns on investment from government budgets to private shareholders.

Whether the poles and wires are privately or publicly owned, the price of the service they provide to ratepayers is determined by the government according to a formula. That formula guarantees the owners of the poles and wires a return based on the value of their assets. It provides an incentive to increase the value of assets and has led to what has been labelled the "gold plating" of the poles and wires in states where they are owned by the government and also in states where they are owned by private companies.

The pricing formula was first established during the 1990s in preparation for privatisation. It was necessary because transmission and distribution are "natural monopolies" and not subject to competition. Governments traditionally charged electricity rates that covered the actual costs of transmission and distribution and were accountable to the electorate for any dividends they squeezed out of the system. However, private transmission/distribution companies could theoretically charge whatever they wanted because electricity is an essential service and, without competition, the ratepayer would have no choice but to pay.

The pricing formula was supposed to ensure that the future privatised corporations would have an incentive to invest in the infrastructure they owned. This was necessary because in a privatised electricity industry there would be no market mechanism to provide this incentive and no government planners deciding what maintenance and upgrades were necessary in the public interest.

In NSW, that guaranteed handsome return on investment is an annual dividend to government. According to a briefing document sent to National Party MPs by the member for Monaro, John Barilaro, the NSW government received \$3 billion last year from assets worth an estimated \$30 billion, that is a 10 per cent return after paying off loan repayments.

If NSW sells the poles and wires, not only will it lose that \$3 billion per year but the proceeds

will be far less than \$30 billion because of the debt that has to be paid back. The briefing document estimates an \$8 billion return to the government. Estimates vary as to what the government will get for the sale but it could borrow the whole amount at much less than \$3 billion per year if it wants extra cash to pay for roads and hospitals.

What is more, the pricing formula ensures that any efficiency gains that a private owner can make in operating the poles and wires by cutting jobs, will not mean lower electricity prices, they will mean higher returns to shareholders.

Clearly any over-investment in poles and wires is not because they are government-owned, it is because there is a pricing formula in place that guarantees a generous rate of return on that investment. The only reason a pricing formula is necessary is to enable the poles and wires to be privatised. It ensures that government owners behave like private owners in the meantime.

Government owners have made an admirable job of showing us how ratepayers can be made to pay rising prices for an essential service under the pricing formula. The difference that private ownership will make is that private owners will keep those generous profits rather than passing them back to the government. Any efficiency gains, that will no doubt come at the cost of jobs and system reliability, will just add to their profits. Moreover, the influx of cash to government coffers from the sale will be at a much higher price than just borrowing the cash.

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