Australia: Privatisations send electricity prices surging

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For all the claims of Australian politicians and media that the country has entered a long period of prosperity, working people are confronting sharp increases in the basic costs of living. Food prices rose 43.6 percent over the past decade, and food inflation is currently running at double the general rate of inflation.

But even the food price hikes pale when compared to the scale of recent rises in the retail price of electricity. The Labor government of New South Wales (NSW), the country's most populous state, this year sanctioned electricity price rises of 64 percent over the next three years, including a 22 percent increase on 1 July. Electricity prices have risen between 10 and 13 percent in every Australian state this year and by an average of 25-30 percent in the past three years.

Labor's federal energy minister, Martin Ferguson, recently told reporters that, on his understanding, electricity prices were likely to rise 100 percent in the next five to seven years. These calculations do not appear to even factor in the price increases that would flow from the Gillard Labor government's plans to put a price on carbon.

These developments are having a devastating effect, especially on low-income earners. The bottom 20 percent of income earners already spend 10-12 percent of their income on electricity, suggesting that within three years, the poorest workers and the unemployed, including aged pensioners, will spend nearly 20 percent on electricity. Most people receiving welfare payments, including the pension, already live well below the federal government's own poverty line, which is set at an "austere" standard.

Growing numbers of ordinary people, and not just those depending on welfare benefits, are having difficulties paying their bills. In the financial year 2009-2010, 18,000 households in NSW had their power disconnected because of non-payment. More than 17,000 households in Western Australia, a state with a far smaller population than NSW, were disconnected.

In her annual report issued today, Clare Petre, the NSW Energy and Water Ombudsman, said surging household electricity bills had triggered an unprecedented rise in complaints and, for the first time, widespread anxiety over current and future price increases. Petre reported a 43 percent rise in complaints to a record 15,048 in the year to June, nearly double the 23 percent increase recorded in the previous year.

Even though Petre's office has no jurisdiction over the price hikes, and many people facing disconnection are unlikely to contact it, the annual report shows that 4,103 customers reported problems paying their bills, a 41 percent increase from the previous year. Of these, 689 customers had already had their supply disconnected and 1,389 were facing disconnection. Petre commented on the inadequacy of the state government's scheme to offer $30 vouchers to those in difficulty. Demand for help had been so strong that some community groups had run out of vouchers. "If you've got a $600 bill, a $30 voucher goes nowhere," Petre said.

These rises, while unprecedented in Australia, fit a well-worn global pattern: retail tariffs rise sharply, though not always immediately, as electricity assets are privatised and markets introduced. In California, workers have already lived through more than a decade of steep prices rises (7 percent per year on average), government bailouts of private electricity companies and chronic blackouts.

The Labor governments' explanation for the price rises is a system-wide failure to renew electricity infrastructure. Prime Minister Julia Gillard told federal parliament last month that "when we look around the nation at increasing electricity prices … we will find that the explanation is underinvestment in electricity generation." In the NSW parliament, Premier Kristina Keneally claimed that energy price increases were part of a "global change" that the state could not avoid and that they were critical to "deliver infrastructure and reliability".

According to the Energy Supply Association of Australia, the electricity industry lobby group, "rising energy prices are no mystery. A big increase in population and rising energy demand is driving a need for new connections at a rate never before seen, and the cost of meeting this has been exacerbated by the need for upgrades to ageing network facilities." The group claimed the new demand was unforseen.

Undoubtedly there has been chronic underinvestment in electricity infrastructure. However, underinvestment is not a *cause*. It is, rather, a *result*. Private electricity distribution companies and government-owned generators are each driven by the need to increase the profits they return annually to shareholders or treasury coffers. Reinvestment occurs only when the system approaches crisis point, as is now the case.

Even then, reinvestment is not funded from profits. Rather, it is gouged from the consumer, a process that has the full support of governments, including Labor. In most jurisdictions, including in NSW, governments politically distance themselves from these developments by placing pricing decisions in the hands of so-called independent regulators. In NSW, it was the Independent Pricing and Regulatory Tribunal that in March this year approved electricity price rises of 64 percent over three years.

In 2009-2010, as electricity tariffs moved steadily upward, the profits of every NSW energy retail company grew between 10 and 13 percent. In Queensland, profits from the government-owned company Energex soared 44 percent to $185 million, while Ergon, its regional sister company, saw profits increase by 28 percent. In Western Australia, profits at the state-owned utility Synergy jumped 9.5 percent to $98 million. Synergy's windfall was backed by a 19 percent ($2 billion) surge in revenue, that is, payments from customers. Its customers were hit with price increases of 7.5 percent in April 2009 and a further 10 percent in July 2010.

The NSW government is in the process of selling the state's three largest energy retailers and of leasing electricity trading rights. Tenders for the government's retailing and trading businesses closed yesterday. Not coincidentally, the government's return on these businesses rose 29 percent in 2009-2010, thereby maximising their sale price. The sell-off is expected to generate in excess of $6 billion for the state government.

The privatisation model now being implemented in NSW is Labor's 'Plan B'. 'Plan A'—the sale of the electricity generators themselves—was abandoned in 2008 after bitter mass opposition and some of the largest public protests in years. Workers had warned that huge job losses would inevitably follow the sell-offs.

But 'Plan B' has been carefully fashioned by the energy companies and Labor to ensure that the purchasers and leasees obtain most of the economic benefits that would have flowed to them from 'Plan A'. Part of the new deal is a guarantee to private buyers that government generators will sell electricity at a price just high enough to cover the cost of generation. The private operators will be free to sell electricity at whatever price they can obtain on the national electricity market (the 'spot market'). In other words, Labor is about to guarantee, in apparent perpetuity, the profits of the private giants.

Professor Sharon Beder, author of a number of works on privatisation, has pointed out: "If the prices in the spot market are high, private operators will make big profits ... Consistently high prices on the spot market will raise the price of electricity supply contracts and the private retail companies will pass these higher prices on to consumers with an extra margin to cover the risks that a volatile energy market poses to those offering electricity via contracts." Beder has also noted that a lower spot price does not mean a lower price for consumers. "If the spot price is consistently low for a time, private retail companies will make big profits rather than consumers paying less for their electricity ... What is more, the spot market price will only fall substantially if there is an excess of generation capacity, but the government is leaving it to the private sector to build excess capacity that will deny them the prices on the spot market."

The current price increases may be used in part to cover infrastructure investment costs. However, under the privatised system, there is no way of ensuring the scale, type and quality of that investment. The separate profit takes of each of the electricity system's various players—generators, wholesale companies and retail companies—must also be fed.

The price rises that will push vast numbers of people further into poverty have been facilitated, and supported, by unflinching Labor governments. The stranglehold of big business over the material conditions of modern life, including basic services, cannot be broken by appeals to Labor or to other pro-market parties, including the Greens. The provision of essential services to all, on an efficient, rational and affordable basis can only occur via the independent action of the working class, guided by a genuinely socialist perspective, aimed against the capitalist profit system itself.