Australian government pushes electricity privatisation

Terry Cook
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The federal Labor government is cynically using public hostility over skyrocketing electricity prices to ramp up the drive, on behalf of the financial markets, for the full privatisation of state-owned energy assets across Australia. According to TD Securities, electricity prices have risen more than 80 percent in five years.

On August 10, Energy and Resources Minister Martin Ferguson declared: “I believe the best means of meeting efficient pricing objectives is to allow the market to operate and make investment decisions on the basis of return on investment.”

Ferguson said the government’s energy white paper, due in October, would push for state and territory governments to privatise power assets “to promote competition in energy generation and retail services.” Ferguson claimed that government ownership “was the greatest barrier” to investment in energy infrastructure.

Power assets in Victoria and South Australia are fully privatised but the networks remain partially state-owned in the other states and the Northern Territory.

Ferguson’s remarks made plain the real agenda behind Prime Minister Julia Gillard’s new-found concern over the impact of electricity price increases on families. Addressing the Energy Policy Institute on August 7, she blamed the price rises on state governments “gold plating” electricity infrastructure.

Gillard’s “gold plating” claim refers to expenditure on upgrading transmission and distribution networks (“poles and wires”) to avoid blackouts and “brownouts” (electricity dimming) during periods of peak demand. She compared such spending to “building a ten lane freeway but with two lanes that are only used or needed for one long weekend.”

In fact, outdated and poorly maintained networks have led to electricity shortages during extreme weather conditions that have caused deaths, as well as severe dislocation. (See: “Australian heat wave kills 60 people, triggers power and transport chaos”)

The prime minister also accused state governments of using their control over “lucrative electricity assets,” combined with their regulatory powers, to increase their revenues “at the expense of the family electricity bill.”

Gillard, whose government is implementing an austerity agenda, including sweeping cuts to social services, has not raised the issue of soaring electricity prices out of any concern for the plight of ordinary working class families.

Rather, by blaming state governments for escalating electricity prices, the prime minister is looking to blunt criticism of her government’s carbon tax. On the false pretence of reducing carbon emissions, the tax hits households, while providing billion-dollar subsidies for the major corporations responsible for the majority of emissions.

The TD Securities and Melbourne Institute monthly inflation gauge for last month showed that the cost of electricity rose, on average, by a further 14.9 percent following the introduction of the carbon tax on July 1.

At the same time, Gillard’s intervention is aimed at overcoming popular opposition to power privatisation. Just last month, Rod Sims, the chairman of the Australian Competition and Consumer Commission (ACCC), the government’s corporate regulator, called for a “debate” on electricity prices. While admitting that he had no evidence that privatisation would result in lower prices, Sims asserted that “more commercially disciplined governance” could prevent price increases.

In reality, the establishment of a national electricity market over the past two decades, initiated by the Labor government of Prime Minister Paul Keating in the 1990s, has been the main driving force of soaring prices.

Corporate operators have reaped substantial profits, including by manipulating supply to force up peak prices, while slashing jobs, maintenance and investment. They have been assisted by government subsidies and regulations designed to underwrite their profits. The financial elite has also benefitted via a financial trading market for electricity, with speculators cashing in on high "spot" prices during peak periods.

In Victoria, where the electricity sector is fully privatised, household prices leapt 20 percent during 2011-12 alone, while spending on new infrastructure has been minimal, resulting in shortages during periods of high demand. This price hike was on top of a 50 percent rise since the Victorian system was privatised in 1998. Likewise, in South Australia, privatisation resulted in electricity prices rising by 30 percent.

State-owned operators have also been corporatised, in order to match the private companies in delivering dividends to the state and territory governments, and to prepare them for privatisation. Increasing government returns on these businesses are designed to demonstrate to potential investors that they are profitable assets.

Both the commercial operators and the state-owned power corporations fund any infrastructure, not from profits, but by price-gouging at the expense of households. They also offer heavy discounts to large corporate customers, including mining and smelting companies.

In New South Wales (NSW) and Queensland, state Labor governments suffered landslide election defeats after privatising government assets, and moving to sell off the electricity networks. As a result, the current Liberal National governments in those states have pledged not to sell off further power assets before their next state elections.

However, the Gillard government's campaign could provide them with the justification to act sooner. In NSW, Premier Barry O'Farrell's government, which gained office in 2010, has continued the electricity privatisation drive begun under the previous Labor administration, and is currently selling off the state's power generators.

O'Farrell appointed a Commission of Audit, chaired by businessman and Future Fund chairman David Gonski, which recommended full privatisation in its final report on August 7. The report claimed that electricity prices increased "at more modest rates where the private sector dominates" and that the biggest driver for the increases during the past decade was "the cost of maintaining the electricity distribution network."

Similarly, the Queensland government, within days of taking office this year, arranged a Commission of Audit of the state's finances, headed by former federal treasurer Peter Costello. In its June interim report, among its recommendations for reducing state debt was the extensive privatisation of state assets.

As the record shows, rising electricity prices, together with other increases in the cost of living, are the result of the operations of the market, which subordinates every aspect of life, including the most basic essentials such as the provision of power, to the drive for profit. While the previous state-owned electricity supplies were always geared to the needs of business, privatisation, being pushed by the Gillard government and supported by state governments of all stripes, will drive up electricity prices even further and increase the hardship suffered by ordinary people.