

May 2015

Electricity privatisation: good for consumers

Tony Wood, Grattan Institute submission to the NSW Legislative Council's Select Committee on the leasing of electricity infrastructure

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1 Summary points

- The privatization of government-owned, electricity network businesses has led to lower costs for consumers without adverse consequences.
- There is every reason to expect that privatization of these businesses in New South Wales will deliver a similar result for its consumers.
- The structure of the proposed privatization as currently envisaged may reduce these benefits, but is a move in the right direction

2 Introduction

This submission from Tony Wood of the Grattan Institute responds to the Issues Paper released by the Select Committee of the Legislative Council to review the proposed arrangements for leasing government-owned electricity network assets.

Grattan Institute is an independent think-tank focused on Australian domestic public policy. It aims to improve policy outcomes by engaging with both decision-makers and the community.

We understand that the Select Committee has been established to inquire into and report on the proposed leasing of electricity transmission and distribution businesses and associated infrastructure investment. In this submission we address several of the specific issues raised in the Issues Paper, drawing on research conducted and published over the last couple of years. In particular, we refer the Committee to our report published in December 2012, *Putting the customer back in front: how to make electricity cheaper* (http://grattan.edu.au/wp-content/uploads/2014/04/178_energy_putting_the_customer_back_in_front.pdf)

3 Specific issues

3.1 The likely implications of the transactions on electricity network pricing given experience in other states

The proposed transactions should deliver lower prices for electricity consumers than would have been achieved if the assets had continued to be owned and operated by the Government. This conclusion is based on a quantitative analysis of the outcome of privatization of similar assets in Victoria and South Australia and in comparison with government-owned assets in New South Wales and Queensland. Our analysis indicates that, on average, the government-owned businesses spend more on capital infrastructure and more on operating that infrastructure. These higher costs are reflected in prices.

The role of independent economic regulation and setting of reliability standards is critical to ensuring that savings are not achieved at the expense of reliability of supply. There appears to be no reason why this should be a concern.

The only caveat to the above would be if the proposed structure of leasing and partial privatization were to constrain the capacity of the

operators of the businesses to deliver the savings.

3.2 The likely impact of the transactions on customers, including on access to and exit from the network

We see no reason for any adverse impact on these matters from the transactions

3.3 The responsibilities of any lessee(s) to maintain, improve and replace infrastructure and the ownership of infrastructure that has been upgraded or replaced

The current regulatory framework should ensure that these responsibilities are addressed at least to the standards of the present arrangements.

3.4 The regulatory framework for electricity distribution and transmission networks and the proposed Electricity Price Commissioner

We understand that the proposed Electricity Price Commissioner is intended to provide an additional layer of consumer protection during the transition that will follow the transactions. While we do not see the need for the role, given the other regulatory arrangements, it should not be an adverse arrangement. The key is likely to be that the conditions for the termination of the role are also clearly established to avoid ongoing or unnecessary costs.

For any queries, please contact:

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