

Electricity Prices in Queensland

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When I was younger electricity prices in Queensland were the second lowest in the world. We couldn't beat the great hydro generation systems of Canada. Much has changed.

We had low prices because:

1. Good quality black steaming coal was mined, almost as overburden, for the coking coal we sold to Japan. It was cheap.
2. Modern power stations were planned and built in a timely fashion to meet the needs for power by the State Electricity Commission without political or pecuniary bias.
3. The generation, transmission and distribution of electricity was by statutory monopolies funding much of their capital needs from revenue and the balance from State loan funds at low interest rates.
4. There existed a culture of service and efficiency in an industry led by engineers who understood it.

Fred Hilmer started the rot. It's not Fred's fault. He was a fine man who did Victoria a service by disembowelling the kingdom of the SECV. He did it by fragmenting the industry in Victoria into uneconomically small units, separating the retailing of electricity from its supply and introducing competition into the retail sector.

The economists applauded. The industry spent hundreds of millions establishing the competitive retail market. Large industry benefited from the first rush to negotiated contracts. Others gained nothing. The market is a failure. Generators game it shamelessly because there is simply not sufficient oversupply to create real competition. It encourages small cheap gas fired generation and Australia is running out of the heavy coal fired plant necessary for system stability and long term low cost base load. Remember what happened on the East Coast of the US a few years back?

A number of US utilities bought into the Victorian distribution market; buying a distributor and retailing from it. They didn't fare well. They funded their purchases with commercial debt and dividend-demanding equity, and couldn't compete with the low debt and low cost debt of Queensland (and other) utilities. They complained; but astutely.

The Queensland government was persuaded to 'level the playing field'. It restructured the industry (through several stages) into corporations subject to Corporations Law and some special State extras. It charged these corporations commercial interest rates on money it borrowed as low interest government loans, and made a handsome margin for state coffers. It directed the corporations to increase gearing, effectively shifting large amounts of debt from the State to the corporations. It charged the corporations the equivalent of Federal income tax as a

State tax. It demanded 100% of profits be returned as dividends. The industry became a major source of state funds. This all put some pressure on prices.

The second stage of using the industry to tax the public was the introduction of a regulator to determine pricing for the networks. The state adopted a "Return on Investment" model. An industry which had led the world in smart network management; which had deferred hundreds of millions of dollars of capital investment by spending a little on intelligent management systems and working components closer to their capability was suddenly punished for so doing.

The more you spend on your network the more you are allowed to charge. The more you charge the more you return to your shareholders. Like the Americans, the name of the game now is "Manage the Regulator"; never mind the network.

Until these fundamental external drivers are corrected high prices will continue.

It's now some time since I was closely involved. Perhaps things have improved - or perhaps not.

Best wishes in your deliberations

Brian Blinco