

Context

RPI-X adopted, as part of a package that included regulators, vertical separation (G-T-D-S). Many similarities (at first) with GB.

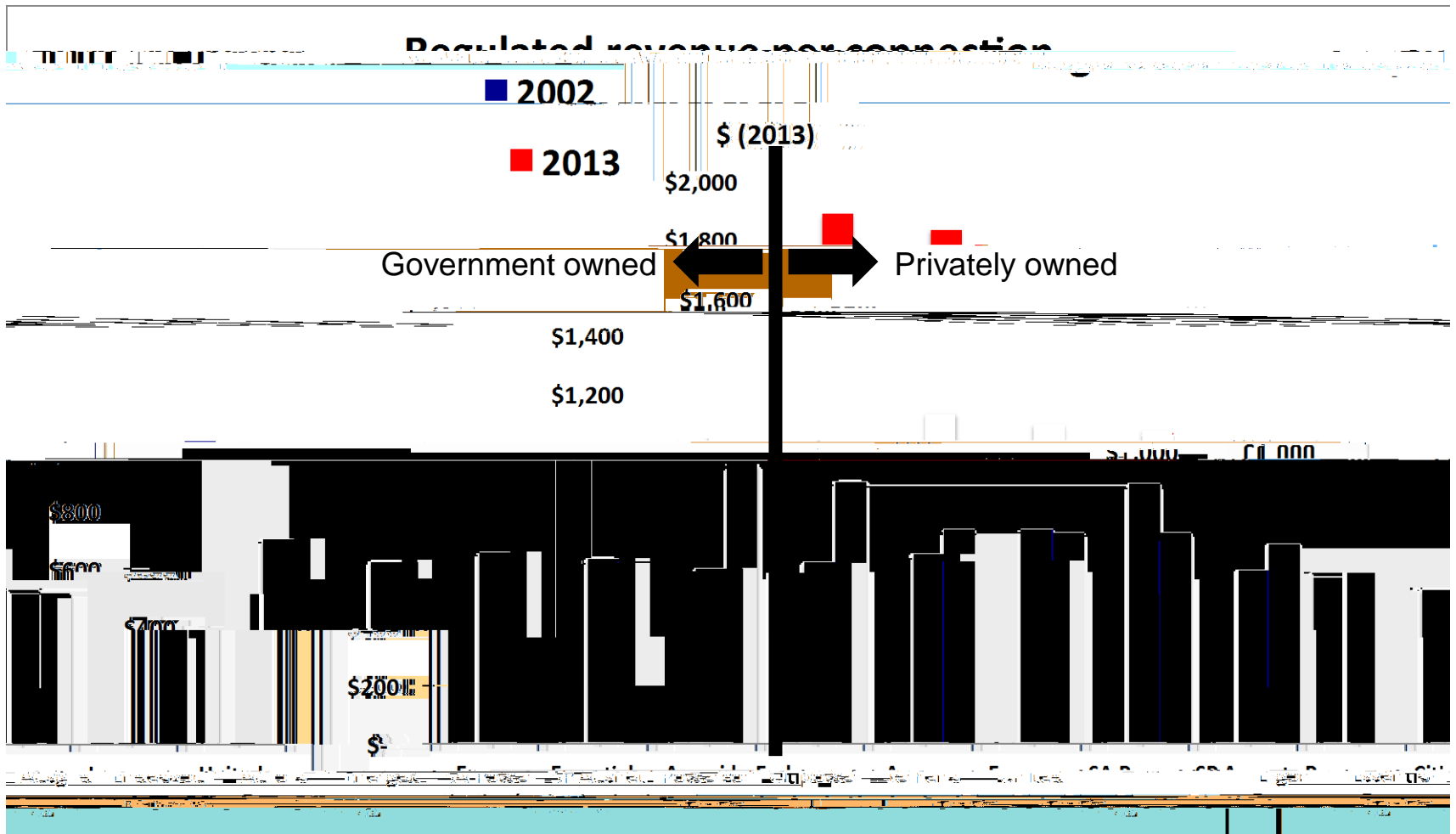
RPI-X applied first to 5 privatised distributors in Victoria (1994) and 1 in South Australia (1999), 1 public-private partnership in ACT (2000), and then also to 3 (state) government-owned distributors in New South Wales, 2 in Queensland, 1 in Tasmania and 1 in Western Australia. Three quarters of consumers still served by govt. distributors.

Govt. distributors “corporatised” and required to pay income tax (which the state governments collect).

Privatisation politically problematic. As fall-back, regulator instructed to regulate govt. distributors as if private (and to ignore state governments’ collection of income tax and debt fees).

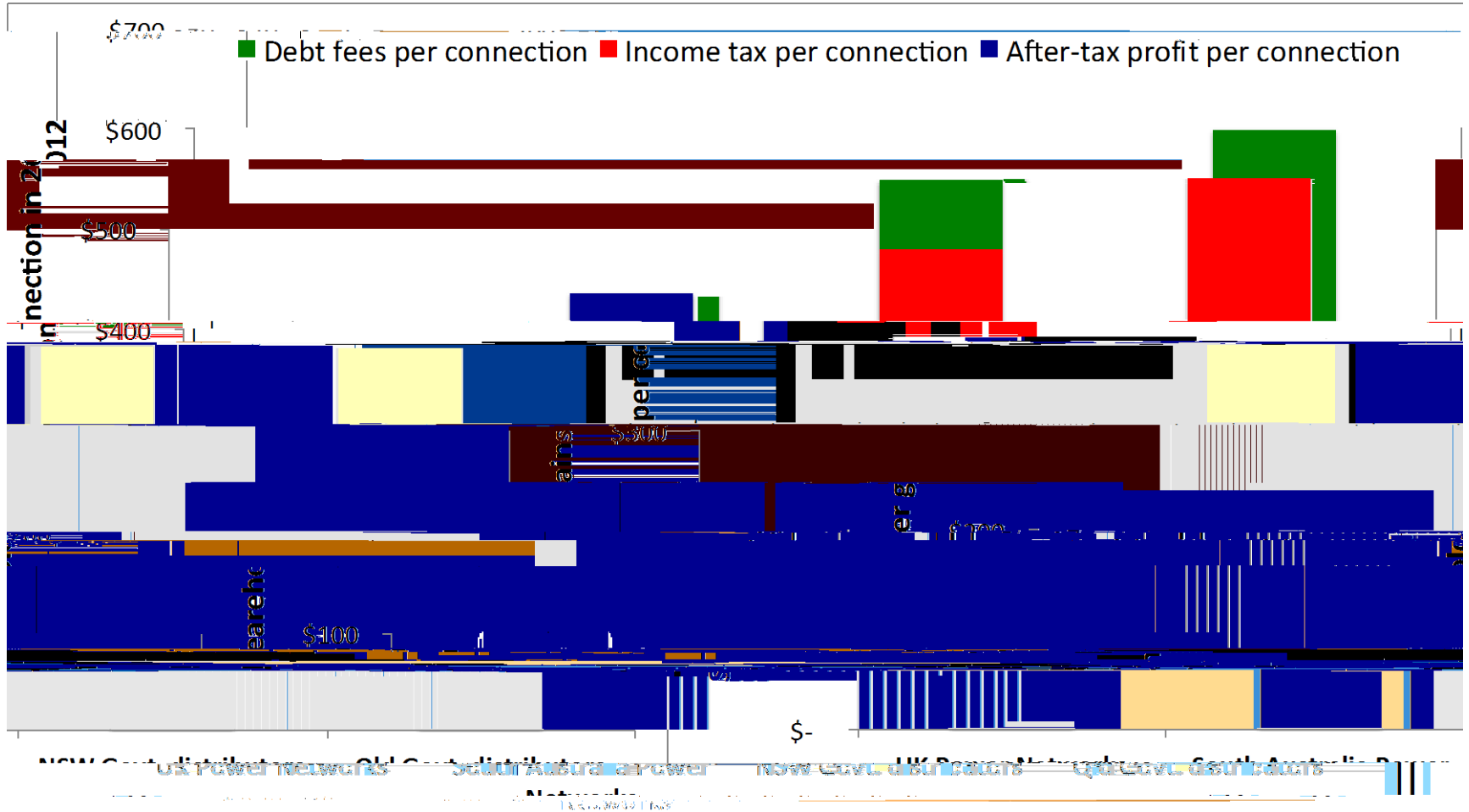
Some believed ownership didn’t matter, others suggested wishful thinking.

And there is a government / private split



Source: regulatory decisions

Shareholders in private distributors in Australia have also done well



Operating conditions don't explain govt/private cost differences ...

No evidence of systematic or enduring quality of supply problems

Peak and average demand contracting since 2009, and unremarkable growth before that.

Asset age data of government-owned distributors does not support “catch-up” hypothesis.

Rationale for introduction of RPI-X 15 years ago - low capital and labour productivity - does not support claims of hihyd udl

Incentives: RPI-X applied to government distributors has over-compensated capital expenditure

Independent regulation in word, much less deed

Australian Energy Regulator (AER) created (2005) through federal-state bargain, along with Australian Energy Markets Commission (AEMC), a powerful advisor / rule maker answerable to the jurisdictions (states and territories).

Seeming dilution of state government political control suggests greater regulatory independence. But:

- AER implements regulation designed by AEMC (globally, a unique bifurcation).
- Some key factors (e.g. network planning standards, inability to adjust WACC to account for income tax receipt by govt. distributors) determined by state governments.

AER is convenient whipping boy for state energy ministers but AER gave the govt. distributors most of what they asked for (which their govt. owners strongly supported).

Summary: Ownership is 9/10^{ths} of the law

RPI-X applied to govt. distributors has encouraged the discovery of wants, rather than efficiency.

Those suggesting that it was wishful thinking to ignore ownership when applying RPI-X seem to be right.

Cost and price outcomes by private distributors more encouraging but shareholders seem to have had more than their fair share of the spoils.

Fresh thinking and willingness to consider major reforms needed.