

Energy plan puts public service before public good

by Alan Moran, Director, Deregulation, Institute of Public Affairs (IPA) March 14, 2014

THE energy white paper under preparation proclaims that government has a role in the energy industry. But it is one that is best limited to controlling natural monopoly elements within the industry. It is certainly not to provide some blueprint for the future.

A history of public ownership

Energy has an ongoing history of public ownership, at least in part stemming from misplaced notions that it is a natural monopoly and a necessity requiring government interventions. The outcome has been deleterious and has been compounded by a determination of governments to use the industry to accommodate its social, environmental and industry policies. This has transformed an inherently low-cost industry into one that now has among the world's highest prices.

A worrying feature of the review is a prominent role given to the supposed need to maintain analytical capability within the government. This appears to be a priority to protect departmental personnel jobs that sits badly with the market-driven industry the white paper claims to be championing. The priority may be partly due to an excessive number of goals that the white paper's "issues paper" specifies. These encompass supplying and using energy:

- To put downward costs of business and households.
- To grow exports.
- To promote low emissions energy technologies.
- To encourage the more efficient use of energy.

Whatever may be said of the first two of these stated goals, the third and fourth are in conflict and have spawned the egregious interventions in energy policy that have created a need for a white paper. The fourth also adopts the discredited hubris: "I'm from the government and I'm here to help you."

Markets develop from the interactions of consumers with businesses, which seek to sell their goods, access inputs and reduce risks. Government's role is to allow these processes to be pursued and to uphold the law.

A plethora of goals

Rather than a plethora of goals, the white paper should have a single focus: to allow the market to bring about efficient production of energy with interventions limited to addressing natural monopoly situations. Anything beyond that will perpetuate the weaknesses presently evident.

Energy is a vital factor in the direct wellbeing of consumers.

More important still for Australia, it is a key component of economic development. Our minerals and agricultural processing industries are natural fits to the resource endowment that Australia has and cheap energy is both part of that endowment and crucial to its development.

Irresponsible government actions

Irresponsible government actions have impaired the value of our energy resources. This can be seen in four key areas:

- Retaining ownership of energy businesses in networks where such ownership is verifiably inefficient and always likely to remain so.
- Placing taxes and regulatory imposts on energy suppliers to force them into costly measures in pursuit of government-determined efficiency, consumer consultation and greenhouse-reducing measures.
- Impeding access to land for gas exploration and development.
- Suppressing prices to certain customer groups, thereby weakening incentives to supply and maintain industry resilience.

Policies to rectify these impairments often entail government action, which are the cause of the problems in the first place.

In the past, as with the post-Hilmer competition policy payments, governments were rewarded (and occasionally punished) with regard to an agreed set of principles.

But the use of government to combat government deficiencies is oxymoronic.

Indeed, if a previous commonwealth government had attempted more forcefully to exert pressure on states to promote a goal it favoured, energy saving measures, the outcome would have been even more perverse than that which has eventuated.

The white paper's aforementioned issues paper continues to promote market interventions in many places associated with green energy and energy efficiency.

It also has to be said that providing incentives for governments to do things that are in the interests of their own consumers is logically questionable.

A useful starting point

A useful starting point for policy, in line with the government's deregulation initiative, is to announce the early sun-setting of all regulatory measures and discriminatory charges and taxes on energy supplies at the commonwealth level. This would be accompanied by an invitation to state governments to adopt similar programs. In the absence of such a measure the best that can be hoped for is to have the process unveil costs of poor decisions in the past as counsel for future decision-makers.