

POWERLESS

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The impact of
privatisation on
domestic electricity
disconnections
Victoria 1985-1997

in a

by

Barbara Romeril

FINANCIAL AND CONSUMER RIGHTS COUNCIL

POWERLESS IN A PRIVATISED STATE

The Impact of Privatisation on Domestic Electricity Disconnections

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1985 to 1997**

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Foreword

This important report makes a timely and very useful contribution to the still nascent field of privatisation analysis. It is an eloquent testament to the fact that analysis of actions taken during the precursory stages of privatisation is crucial to an understanding of post-privatisation outcomes. Indeed, without this, the *distributional equation* of privatisation is likely to be incomplete at best and highly misleading at worst.

This work exposes the hollowness of claims that privatisation has “delivered” for low income consumers by revealing the way that disconnection data has been misinterpreted and manipulated. In her study, Ms. Romeril has effectively debunked pervasive myths within the industry about the profile of the disconnected as “skippers”, refuting the theory that socio-economic variables outside of the control of the industry have driven most of the increase in household disconnections.

This study represents a triumph of appropriate methodology, careful and reflexive argument and analysis, and full and careful presentation, discussion and interpretation of interesting and relevant data. It is exceptionally clearly focused and well written. Simultaneously, this report is passionate, precise, fluent and scholarly. We hope you enjoy reading it as much as we have.

Dr. John Ernst,
Victoria University of Technology

Dr. Rob Watts,
Royal Melbourne Institute of Technology

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Executive Summary

The research documented in this report presents a serious challenge to those who claim that the introduction of commercial principles to public services will automatically benefit all citizens. The findings of this research confirm fears that privatisation increases social divisions by bringing benefits to those who already have a disproportionate share of society's resources while inflicting punishments on disadvantaged citizens who are least able to exercise market power.

Before the Victorian Government sold its electricity distribution businesses to private owners, it set benchmarks against which performance could be monitored in order to ensure that the community was not disadvantaged by privatisation. The benchmarks were based on the performance of the publicly owned State Electricity Commission of Victoria (SECV) as at 29 September 1994. Using this criterion, the private electricity distribution businesses appear to have performed well by reducing the rate at which domestic customers are disconnected from electricity for inability to pay. However, the longitudinal study of disconnection data contained in this paper reveals that the performance of the SECV as at September 1994 was far from the best practice achieved by the utility while under public ownership. It was, in fact, the time of the highest rate of domestic disconnections on public record.

Best practice for the SECV was established in the latter half of the 1980s, when an average of 0.7 households per thousand domestic customers was disconnected each month over a period of six years. The benchmark that the Government set for the private companies was more than twice this best practice, at 1.6 households disconnected per month per thousand domestic customers. It was not until 1997 that the private distribution businesses started performing at a level equivalent to SECV best practice, which represents over six years of hardship for Victorian consumers. Further, in the absence of regular reporting since March 1997, it is impossible to determine whether disconnections are again increasing.

Rising unemployment explains some of the increase in domestic disconnections, but not all. Increased electricity tariffs in combination with high unemployment provides more of the explanation but still there are unexplained aspects of the trends. The increases in tariffs were introduced in the context of commercialisation of the SECV and as part of a reorientation of priorities away from social goals in favour of economic efficiency. While there is limited conclusive

evidence of a toughening in the attitude of the SECV toward people in financial difficulty, a fuller examination of the context of the increase in domestic disconnections in the early 1990s suggests that this was also a significant contributing factor.

Thus the process of privatisation of electricity in Victoria, in particular the process of commercialisation and corporatisation that prepared the SECV for sale to private owners, has inflicted a major cost on vulnerable citizens in the form of a dramatic increase in the number of households disconnected from essential power.

Seven recommendations emerge from this research:

1. that the role of the Regulator General be expanded to include oversight of the social impact of privatisation in order to ensure that all Victorians are treated fairly, including people in receipt of low incomes
2. that service standards be developed that meet the needs of low income consumers, particularly in regard to access to supply and appropriate and responsive debt collection practices such as flexible payment schemes and deferment or waiver of debt
3. that the Regulator General adopt a target of a maximum average of 0.35 households disconnected from electricity per month per thousand domestic customers as a benchmark for evaluating the performance of privatised electricity companies
4. that the Regulator General publish detailed monthly disconnection figures in order to demonstrate public accountability for monitoring the performance of the companies
5. that the Victorian Government establish community service obligations for the corporatised and privatised utilities in order to ensure that no household is disconnected through inability to pay
6. that the Regulator General monitor the preparation phases of commercialisation and corporatisation of the gas and water industries in order to avoid establishing the worst practice levels of the benchmarks for assessing the performance of privatised utilities
7. that the Victorian Government evaluate the impact of privatisation on the functioning of democracy, in particular, the impact of loss of access to essential services on the capacity of Victorians to fulfil their obligations as citizens.

CHAPTER 1: INTRODUCTION

Why is this research needed?

The first report of the Regulator General on the performance of the newly privatised electricity distribution businesses in Victoria, published in October 1995 within three months of the sale of the first of the five businesses, announced 'Good news for customers' (ORG 1995b:1). Two reasons were put forward for this positive assessment. First, never before had the 'industry watchdog' published data to show that he was monitoring the impact of privatisation on customers. Second, the data contained in the report suggested that standards of service provided by the new private distribution businesses 'do not appear to have fallen' below those of the old publicly-owned State Electricity Commission of Victoria (SECV) (ORG 1995b:1).

The first of these developments was indeed good news. The Office of the Regulator General (ORG) is required by law to monitor and report on the performance of the utilities in regard to agreed performance indicators whereas the old SECV was highly inconsistent in monitoring and reporting on changes in customer service standards. The lukewarm qualification in the second development, however, is important - only extremely limited data was available to the Regulator General to enable him to fulfil his obligation of ensuring that the private distribution businesses perform at least to the standard of the SECV.

Thus it has been necessary for community organisations to fill this gap by gathering data from a variety of SECV publications and where the data is not published, to extract it under Freedom of Information laws, in order to construct a longitudinal picture of developments in customer service standards. The Regulator General was quoted as admitting that the lack of data for disconnections prior to 1994 was 'less than ideal' (*Age* 4.10.95:4) but nevertheless he has continued to claim success in ensuring an equal or better standard of service than the old SECV as evidenced by headlines from October 1995 - 'Regulator General hails sale of power industry' - and January 1997 - 'Watchdog praises power companies' (*Age* 10.1.97:A5).

This study demonstrates that the lack of historical data on disconnections has far greater significance than is suggested by the Regulator General's characterisation of it as 'less than ideal'. It is, in fact, critical to the ability of the Regulator General to carry out his responsibilities of ensuring

that the service standards of the privately owned electricity distribution businesses do not decline below those of the SECV. This report collates and analyses such data as can be extracted regarding the disconnection of Victorian households from electricity supply for inability to pay and reveals a disturbing picture that challenges the positive assertions of the Regulator General.

While some factors that contribute to changes in rates of disconnection from power are outside the control of the provider, nevertheless utilities have a high degree of discretion in deciding whether households will be cut off from their services. This study explores the impact of privatisation of electricity on people living on low incomes by examining trends in rates of disconnection of domestic customers from electricity supply in Victoria. It traces trends for a twelve year period, covering public provision of electricity and all stages of the privatisation process including corporatisation, commercialisation and sale to private owners, demonstrating that the corporatisation process that prepared the SECV for sale inflicted a major cost on low income households in this state.

This report contends that domestic electricity disconnections have increased dramatically as a direct result of policy decisions by the SECV in response to government decisions regarding microeconomic reform. Thus, the process of privatisation of electricity in Victoria has had a negative impact on vulnerable consumers by denying low income households access to and maintenance of supply of essential power.

In terms of research design, the decision to focus on disconnections as a way of monitoring the impact of privatisation is controversial because of the wide range of factors which can potentially impact on disconnections. This presents a challenge to tease out these factors and trace as far as possible the contribution of each to the trends. There is a defensible argument for taking this approach that is fleshed out in the following chapters.

This introduction explains the significance of this study, describes the approach taken and summarises the key findings. Chapter 2 describes what has occurred in Victoria in the privatisation of electricity, within the context of national competition policy and international trends to economic rationalism. It also presents a critique of the ideology underpinning privatisation, summarises existing research into the impacts of privatisation and points to the need for further research to monitor the social impacts. Chapter 3 details the method used in the current study and traces the trends that emerge from an examination of disconnection rates in electricity in Victoria. Chapter 4

examines the various factors that have contributed disconnection trends in the Victorian electricity industry and exposes the extent to which the increase in disconnections was due to deliberate policy decisions of the SECV. The final chapter discusses the implications of these findings for electricity customers in Victoria, for the privatisation of other utilities and for broader debates about the state and the market.

What is so significant about this research?

Federal and State Governments in Australia claim to be pursuing privatisation of state owned businesses as a way of improving efficiency and effectiveness of services to citizens. This is part of a highly significant international trend toward privatisation which represents 'a pivotal point in the history of the modern State' as governments relinquish their role in providing the physical infrastructure of society (Ernst 1994a:2). This process is informed by the dominant ideology of economic rationalism, which holds that market forces are more efficient and effective than governments in allocating economic resources. Privatisation of utilities is a significant part of this change in the role of government because these services directly impact on every household (Ernst 1994a:2).

The Liberal/National Party Coalition Government of Victoria claims that the benefits of utility privatisation will be shared by everyone through general economic growth and lower tariffs (OSOE 1994). Experience in the UK suggests that the benefits of privatisation of public utilities are not, in fact, shared equally (Ernst 1994a). This study was initiated in anticipation of unequal impacts on citizens in Victoria as we go down the same path of privatisation as Britain.

Utilities in Victoria have already been corporatised so that they now function like private businesses with management separated from government (OSOE 1994). Electricity distribution and some electricity generation is privately owned and gas distribution will be sold in 1998. The Victorian Government has stated that it may sell water distribution after the year 2000 (*Age* 30.3.96). The Government aims to introduce genuine competition to the domestic electricity and gas industries through choice of supplier for all customers by the year 2001. Thus now is the ideal time to assess the initial impacts of privatisation in order to inform government decision-making regarding future privatisation.

As with utility privatisation in the UK, the Victorian Government is not allowing unfettered market forces to control the process. It has established the Office of the Regulator General specifically to regulate the privatised utility industries in Victoria to promote competition and efficiency, to protect the interests of consumers in regard to prices, safety, reliability and quality of supply, to facilitate a financially viable industry (OSOE 1994b:69) and 'to ensure that users and customers benefit from competition and efficiency' (Government of Victoria 1994). The Victorian Government is also committed to continuation of concessions to pensioners (OSOE 1994b:34) and relief grants for households in temporary crisis.

Despite this on-going state intervention, consumer organisations are concerned about the potential negative impact of privatisation, especially on low income consumers. These organisations do not directly challenge the ideology of economic rationalism. Rather they argue that competition and privatisation do not ensure access to essential services including utilities; thus they stress the need for increased regulation (Walker 1995a, 1995b), a safety net for low income consumers and other disadvantaged groups, as well as protection of consumer interests in general (Benvenuti 1994).

Even the most enthusiastic supporters of economic rationalism concede the need for some government regulation (Stone 1992). But these proponents always argue for minimal regulation, a small state and non-intrusive government. For critics of the impacts of economic rationalist policies, this question of regulation is a weak point in their opponents' armour, an inconsistency which can be exploited to press for changes that will decrease, if not reverse the inequalities and suffering caused by economic rationalism.

This study is a response to the pressing need for a comprehensive, dispassionate analysis of the impacts of privatisation. The Office of the Regulator General is seeking case study data from representatives of consumer organisations on its consultative committees. Consumer organisations such as the Financial and Consumer Rights Council (formerly Consumer Advocacy and Financial Counselling Association) and the Victorian Council of Social Service are attempting to document the negative impacts of privatisation on people on low incomes. They are hampered by a lack of hard data and a lack of resources to do this adequately.

There is little existing research in Australia or internationally on the social impacts of privatisation of utilities. Ernst's ground breaking study (1994a) fills this gap for the UK but there is no equivalent research in Australia. This current study does not have the scope of Ernst's research but it clearly

demonstrates through examination of one of Ernst's indicators that privatisation has had negative impacts on vulnerable consumers. It also provides some useful base data from which to monitor the impacts of privatisation in Australia over future years and raises some warnings regarding potential negative consequences for low income Victorians as consumers of gas and water, in the lead up to sale of these utilities to private owners.

It is highly unlikely that this study will lead to a change in government policy regarding privatisation of public utilities since the commitment to economic rationalism is too great. However, systematic and scholarly documentation of the actual social impacts of privatisation of public utilities on the lives of people living on low incomes will contribute to the capacity of consumer organisations to represent accurately and convincingly the interests of their constituents to the Office of the Regulator General. Thus the study may indirectly influence government policy with regard to the level and type of regulation required to reduce the negative impacts of privatisation. If so, Victoria could hope to minimise some of the more serious social consequences experienced in the UK such as increasing social division and stigmatisation (Ernst 1994a).

How was the research designed?

This study is underpinned by several core values. They are:

- that equal access to utilities for all citizens is a fair expectation in Australia in the 1990s and a desirable social outcome;
- that privatisation of utilities has a systematic, measurable impact on people living on low incomes; and
- that it is worthwhile to identify unequal impacts such as increased disconnection for inability to pay so that government and industry can be taken to task to reverse these negative impacts of privatisation.

This study focuses on developments in the electricity industry in Victoria. This industry provides the most fertile ground for detecting the social impact of privatisation as it is the most advanced of the utilities in terms of privatisation, with generation and distribution companies having been sold.

The key question explored here is - has the privatisation of electricity distribution in Victoria disadvantaged low income households? One of the main ways in which people on low incomes are

vulnerable in the competitive marketplace is in regard to guaranteed access to essential services such as electricity regardless of economic disadvantage. Thus this question is answered through tracking trends in disconnections from electricity supply for inability to pay bills.

Monthly domestic disconnection figures have been collected for the last twelve years of the period electricity supply was under public ownership. Comparative data has also been collected on the performance of the corporatised electricity supply companies as they operated in 1994/5 and data has been collected from the electricity supply companies after sale to private owners in late 1995. In order to expose the various factors which may have contributed to changes in disconnections over the period, data has been collected on changes in the structure and size of SECV tariffs, rates of unemployment and movements in the Consumer Price Index, documentation of SECV policies and practices with respect to disconnection for non-payment and relevant government reports and policy documents that trace the increasing emphasis on commercial principles in this period.

Interviews were conducted with two key respondents - Gavin Dufty, Utility Policy Officer with the Energy Action Group and more recently with the Victorian Council of Social Service and Garth Sullivan, retired SECV District Manager¹. These interviews were conducted in order to confirm the veracity of these sources, to identify key events affecting electricity supply in the period under study and to test the analysis of the relative impact of each of these key events.

This methodology has confirmed the necessity of looking further than just the impacts of sale to private owners; the process of privatisation is much more complex and includes the processes of commercialisation and corporatisation that subject a government business enterprise to market forces and prepare it for sale.

The key respondents identified other sources of data that throw further light on the central research question, including data on utilisation of payment plans and relief grants. Examining this data is beyond the scope of the current study and remains an area for further investigation. The initial interview with Gavin Dufty suggests that these figures would support the conclusions of this study.

¹ The author wishes to acknowledge the generosity of Gavin Dufty, Policy Officer at the Victorian Council of Social Service, Garth Sullivan, retired District Manager of the SECV, Don Siemon, Glenda Romeril, John Wiseman and Marg Hutton for their valuable, respective contributions to this project.

It is also beyond the scope of this study to examine utilities other than the electricity industry. While the gas and water utilities have been subject to many of the changes involved in the process of privatisation, they have not yet been sold to private owners. This study demonstrates that some of the negative impacts of privatisation arise during the preparation phase. Thus there is an urgent need for future research into trends in the gas industry now that the decision has been made to disaggregate and sell the Gas and Fuel Corporation of Victoria.

What were the key findings of this research?

Since the electricity distribution companies were sold to private owners in the second half of 1995, the Government has claimed improved performance in declining rates of disconnection from electricity supply. The changes in disconnection rates quoted by Government, however, mask some significant trends that reveal a more worrying picture. The much-feted declining disconnection rates are, in fact, declining from a historically high level.

The data collected in this paper demonstrate that while the SECV was being commercialised and corporatised, it consistently and dramatically increased its rate of disconnection of domestic households for inability to pay during the four years before the sale to private owners. During the late 1980s, when the SECV had a policy of eliminating disconnections due to economic hardship, a best practice was established over a six year period of only 0.7 households per thousand customers disconnected per month. When the distribution arm was broken up into five companies in 1994 in preparation for sale they were disconnecting domestic households at triple the rate of the SECV's best practice. While some external factors beyond the control of the SECV may have contributed to this trend, such as high rates of unemployment, close analysis suggests that a major cause was deliberate tightening of the SECV procedures for dealing with customers experiencing difficulty paying electricity bills as a direct result of government policy changes requiring greater economic efficiency from utilities.

Rates of disconnection from supply of domestic customers who are genuinely unable to pay their electricity bills are not declining uniformly across the state. In the disadvantaged inner northern and outer western Melbourne metropolitan area and rural western Victoria the number of households being denied access to essential energy because they are genuinely unable to pay their bills is much higher than in other parts of the state. Thus any benefits that low income households may be

gaining from privatisation of electricity are restricted to some areas of the state and so access to these benefits is an accident of geography rather than a right.

This study demonstrates that current disconnection rates must decline significantly before any benefit can be claimed to have flowed to low income Victorians from the privatisation process. Further, governments must examine the historical performance of the Gas and Fuel Corporation of Victoria in order to establish best practice against which to set benchmarks for assessing the performance of the corporatised gas companies that have been formed by the disaggregation of the Gas and Fuel Corporation of Victoria and later when they are sold to private owners. Assessments of the impact of privatisation must examine all phases of the privatisation process, including commercialisation and corporatisation as well as the sale to public owners. Finally, this study questions the capacity of the market to ensure that citizens are provided with essential services to enable them to participate fully in a democratic society.

CHAPTER 2: PRIVATISATION

This chapter establishes the context for the current study by examining the process of electricity privatisation in Victoria as well as the assumptions on which this privatisation is based.

The privatisation of state owned businesses in Victoria in the 1990s is being carried out in the context of international economic rationalism. The extent to which privatisation will deliver the benefits that its proponents claim is contested and this points to the need for empirical research to monitor the actual impact of privatisation. There is limited existing research into the social impact of the privatisation program and this similarly reveals the need for further empirical research. The next chapter describes the current study into trends in electricity disconnections in Victoria, which represents an attempt to fill this gap.

The rationale for privatisation flows directly from the economic theories that underpin economic rationalism. Economic rationalism is based on the belief that capitalist free markets are, in most instances, more efficient and effective than the state in delivering goods and services due to competitive pressures (Stone 1992). In applying this principle, government is freed to act as a regulator rather than a provider of goods and services. Economic rationalism is informed by theories such as agency theory and public choice theory which provide the rationale for the introduction of competition to the public sector and for sale of government enterprises to private, profit-making interests (Walsh 1997:27, Ernst and Webber 1996:127). The achievement of social goals is seen to be best achieved through consumer choice and economic efficiency.

Economic rationalism in Australia

The widespread influence of this ideology is well documented internationally and within Australia (Kelly 1992, Stilwell 1989, Stone 1992). The OECD has produced several reports in recent years that promote competition of regulated sectors of the economy as a way to increase efficiency and general welfare (Carver 1994). At the national level, the Hawke and Keating ALP Governments of the 1980s embraced the economic theory that competitive markets produce the most efficient allocation of resources (Pusey 1991, Kelly 1992). Thus, the 1980s witnessed a massive reduction in government intervention in the economy, with the floating of the Australian dollar and deregulation of the financial sector and telecommunications. In 1987, the Federal Government initiated a public

debate about the value of privatisation of public enterprises (National Consumer Affairs Advisory Council 1988). However, the provision of some form of government regulation is integral to the theory of economic rationalism. The OECD has endorsed government regulation of natural monopolies and in areas where competition is inefficient (Carver 1994).

The ideological shift to economic rationalism at federal level had a direct impact on Australian utilities from the late 1980s. The federal Industry Assistance Commission (IAC) acted as the agent of the federal government in providing the momentum for change (Ernst and Webber 1996:135). In 1989 the IAC conducted an inquiry into government non-tax charges and for the first time government business enterprises were subjected to the harsh light of economic rationalism. The report of the inquiry characterised the social equity objectives of the utilities as a major problem preventing them from operating as efficiently as private industry (IAC 1989: Electricity Study ix). It called for major reform to introduce competition and for the separation of social objectives from economic objectives by defining and separately funding community service obligations (IAC 1989:xxvi-xxvii).

In the following year, the Special Premiers' Conference of 1990 agreed to establish a National Grid Management Council, with the intention of opening up competition between states in the electricity market. The Conference also established the Steering Committee on National Performance Monitoring for Government Business Enterprises (SCNMPGBE) to ensure accountability in the absence of market discipline (SCNMPGBE 1995:iii). This committee publishes annual reports on the performance of government businesses in relation to a large range of economic indicators. There is only one performance indicator that in any way measures social factors - a measure of minutes off supply (SCNMPGBE 1995:21). Thus the work of this committee reinforced the view that the social aspects of government services were of minimal importance.

During 1991, the Industry Commission (IC - formerly the IAC) published two reports that impacted directly on state utilities. The first report, on energy generation and distribution, claimed that the Australian electricity industry would become more efficient if it was exposed to market discipline through immediate corporatisation followed by privatisation (IC 1991a:81,145,165). In the second report, on greenhouse gas emissions, the IC urged 'vigorous pursuit' of its proposed microeconomic reforms of energy utilities as a way of ensuring that Australian industry could adapt flexibly to constraints imposed by international agreements to reduce greenhouse gases and to raise

finance to fund the necessary activities. Thus, privatisation was characterised as essential to the achievement of environmental responsibility (IC 1991b:241).

In the following year, the SCNMPGBE published a report on measuring economic efficiency and gave only vague reference to 'research programs and policies' regarding social and environmental performance (SCNMPGBE 1992:97) further reinforcing the secondary status of social objectives.

Later in 1992, the Federal Government set up the Hilmer inquiry into the establishment of national competition policy. The Hilmer Report on competition policy was published in 1993 and recommended mechanisms to introduce competition to the operations of government business enterprises. Significantly, it also extended coverage to essential services including electricity, rail, pipelines and ports. The Report argued that increased competition will 'increase efficiency and community welfare while recognising other social goals' (Independent Committee of Inquiry 1993:v). It recognised, however, that there are situations where unfettered competition is undesirable and allowed that 'some consumer protection provisions improve the efficiency of markets' (Independent Committee of Inquiry 1993:2). Hilmer specifically targeted restructuring of energy utilities as an example of desirable reform of public monopolies to enable competition to occur (Independent Committee of Inquiry 1993:3). The Keating Government embraced these recommendations and in early 1994, the Council of Australian Governments committed every state to the introduction of competition in gas and electricity markets over the next two years (Carver 1994).

In 1996, a conservative federal government was elected on a policy of privatisation 'where it is demonstrably in the public interest' (Liberal Party of Australia 1996:1). The policy also stressed the commonality between the Liberal/National Parties' policies and the privatisation program of the previous ALP Government (Liberal Party of Australia 1996:13).

The reform of utilities in Victoria

The Victorian Coalition Government demonstrated the principles of economic rationalism in arguing that privatisation would provide performance gains such as more commercial decision-making and performance incentives for staff (OSOE 1994). In Victoria, as at the federal level, the groundwork for this conservative shift was established by the previous ALP government.

In the 1980s the Victorian ALP Government changed the public sector from what Alford (1993:3) calls the Conventional Model of the post-War era which was characterised by Ministerial direction, hierarchical organisation and concern with due process. It created a model of government that Alford calls the Managerialist Model, in which the emphasis shifted away 'from following the rules to delivering results' and involved commercialisation and corporatisation of government activities that were considered not part of the core business of government, including electricity.

In 1991, immediately after the Special Premiers' Conference the Victorian ALP Government charged its Economic and Budget Review Committee with the task of investigating if and how Victorian government business enterprises should identify and cost community service obligations. The report of the Committee's considerations defined community service obligations as social responsibilities required by and funded by government, that are over and above what would be expected of a 'good corporate citizen' (Economic and Budget Review Committee 1991). It also noted that an implication of pursuing this approach is that, as an enterprise nominates an activity as a community service obligation it is declaring that it will not continue to provide the service unless government specifically requires it and funds it. Thus, from the outset, the approach of separating social obligations of government business enterprises from their commercial activities has been based on reducing services to the community, not protecting or expanding them. In the same year, the Victorian ALP Government charged its Public Bodies Review Committee to inquire into corporatisation (PBRC 1991) and the Government published a discussion paper outlining a Victorian model of corporatisation (Government of Victoria 1991).

Shortly before the change of government in Victoria in 1992, the ALP Government indicated its intention to commercialise public authorities as a means of increasing efficiency so that the Victorian manufacturing industry could compete internationally (Sheehan 1992). This strategy stopped short of privatisation because the Government was concerned that the utilities would attract a poor sale price while they were operating inefficiently. The Government also expressed concerns about environmental and social equity issues (Sheehan 1992:3). Thus, the previous Victorian ALP Government, despite minimising the role of privatisation of state businesses in its reform agenda, laid the groundwork for the changes that are occurring in Victoria in the 1990s by establishing the Managerialist State and commercialising utilities.

The 1990s have witnessed a further shift led by the Coalition Government, beyond the Managerialist Model to what Alford calls the Contractual Model which emphasises reduction of the public sector, purchaser-provider relationships between core government departments and autonomous service delivery agents and, where possible, competition between service deliverers. Privatisation and contracting out of services are integral to this model.

A primary aim of utility privatisation in Victoria, as for all privatisation programs (Ernst 1994b:109), is to raise funds for government. The Victorian Coalition Government was elected in October 1992 on a platform of rescuing the economy from crisis. The previous ALP Government had acknowledged that the state faced serious budgetary problems and one of the Coalition Government's first acts was to audit the state's finances (Victorian Commission of Audit 1993). This audit concluded that a key cause of Victoria's financial problems was overspending on government services caused by the undue influence of interest groups. It therefore recommended a restructuring of government activity in order to reduce the influence of these interest groups (Alford et.al. 1994:8).

The conclusions of the audit have been challenged by several analysts who argue that Victoria's debt in 1992 was within acceptable levels nationally and internationally as well as in comparison with historical levels of debt in the state (Watts 1992, Crooks and Webber 1993, Salvaris 1992 and 1993, Hayward 1993). Further, they argue that the Coalition's reasons for adopting this 'alarmist stance' (Crooks and Webber 1993) was purely ideological - to justify its economic rationalist attack on the public sector.

Not surprisingly then, the Government embraced the recommendations of the audit and incorporated reform of state owned enterprises into its financial management strategy (Government of Victoria 1993:8.1-8.14). The stated aims of this reform clearly reflected the underlying assumptions of economic rationalism - increased efficiency through competition, empowerment of consumers through choice of service provider and reduced state debt by using the proceeds of sales to retire debt (Government of Victoria 1993:8.3-8.4).

The mechanism for achieving these objectives was the *State Owned Enterprises Act 1992* that enabled the Government to restructure its businesses to focus on economic objectives through commercialisation, corporatisation and sale to private owners. The Government's financial management strategy identified privatisation as appropriate 'where there is a need to break up

entities, and where industry conditions are established for competitive markets' (Government of Victoria 1993:8.6). Thus, the Victorian Government expressed its intention to privatise any government business enterprise where it was seen to be commercially viable.

The Coalition Government also adopted the Community Service Obligation approach to ensuring some level of social provision. Thus while the community's need for services is to be met where possible through the operations of markets rather than through public provision, there is also provision made for unprofitable services such as street lighting and concessions for low income households. These are identified by government as community service obligations of the commercial enterprises, their provision is made a condition of operating licences and their delivery is funded and monitored by government.

The political developments under both the ALP and the Coalition Governments in Victoria have had significant impacts on all utilities. Historically, water and sewerage services have been provided by a series of monopoly government providers throughout Victoria, including Melbourne and Metropolitan Board of Works (MMBW, later Melbourne Water) in the metropolitan area, non-metropolitan urban water authorities in large country centres and rural water boards in farming areas.

The ALP Government had started the process of corporatisation of the MMBW at the time it lost government (Government of Victoria 1991:55). The Coalition Government corporatised Melbourne Water in 1995 and disaggregated it into a headworks and three water distribution companies; the latter now operate under licence and are subject to the Office of the Regulator General. In 1995, rural water boards and non-metropolitan urban water authorities were amalgamated into a smaller number and were separated from local government. They will progressively come under licence and the control of the Office of the Regulator General. In 1996, the Government announced that water will not be privatised before the year 2000 because the pricing structure makes the industry uncompetitive (*Age* 30.3.96:A11). In 1997, water pricing was restructured so that the major component relates to usage levels. It appears that the stage is now set for full privatisation.

Historically, gas has been provided through monopoly state provision by the Gas and Fuel Corporation of Victoria. As with electricity, the ALP Government was planning to corporatise the Gas and Fuel at the time of its election defeat in 1992 (Government of Victoria 1991:55). In 1993/94, the Coalition Government broke up the Gas and Fuel Corporation, sold the liquefied gas

subsidiary Heatane to private owners and formally separated the exploration subsidiary (SCNPMGBE 1995:41). The remaining public utility was renamed GASCOR.

In 1997, the Coalition Government divided GASCOR into three retail and three distribution companies covering different geographical regions in order to introduce competition to its operations where possible and to prepare for sale to private owners in 1998. The new businesses will be subject to increased regulation and prices will be capped at less than CPI until 2001 when full competition is expected (Office of the Treasurer 1997). This plan mirrors the process outlined below for privatisation of the electricity industry.

The privatisation of electricity

From 1921 until the 1990s, electricity was provided to the citizens of Victoria through monopoly state provision by the State Electricity Commission of Victoria (SECV) and eleven municipal electricity undertakings (MEUs). Most of the state's electricity was generated from brown coal in the La Trobe Valley in the east of the state (Carter 1996:143).

The SECV was criticised by conservatives as being inefficient, costly and impeding international competitiveness (Tasman Institute and Institute of Public Affairs 1991). It was also criticised by the community sector as overly bureaucratic and insensitive to social needs (see for example Energy Action Group 1983).

In 1982, the Cain ALP Government was elected on a platform that included a commitment to increased Ministerial control of the SECV, reduced tariffs and increased public involvement in decision making (ALP Victorian Branch 1982). While disconnection data was not regularly published during this time, community groups regularly lobbied for reductions in domestic disconnections (see for example Energy Action Group 1986) and were successful in eliciting a commitment from the government to implementing 'policies and procedures aimed at ending disconnection for those genuinely unable to pay' (Government of Victoria 1987). During the 1980s, the Government commercialised the SECV with a resulting increase in efficiency in terms of an increased rate of return on assets (Sheehan 1992; Government of Victoria 1991:7). From 1984/85, the SECV started to operate at a profit, particularly through reducing its work force by two thirds (Carter 1996:143).

During the 1980s, the SECV, like the electricity industry in other states, invested heavily in new generating plant in the expectation of increased demand from high levels of economic growth in general and from the aluminium industry in particular. This growth did not occur and by the end of the decade the industry had significant excess generating capacity (IAC 1989) which still exceeds demand in the late 1990s (Carter 1996).

Studies in the early 1990s by EPAC and London Economics, however, showed that the SECV performance compared well internationally in regard to electricity prices, efficient use of resources and efficiency in electricity distribution. The SECV stopped taking on new debt in 1990 and was covering existing debt out of operating revenue while returning increasing dividends to the public purse (Carter 1996).

Although the SECV operated as an efficient commercial enterprise, by its nature it was unacceptable within the economic rationalist view, as a monopoly and as a government owned enterprise, subject to government regulation, which discriminates between classes of customers in pricing (Carter 1996). Thus in the view of the government it had to change. The Liberal-National Party Coalition policy platform for the 1992 Victorian election clearly indicated its intention to disaggregate the SECV and privatise significant elements (Liberal Party of Australia - Victorian Division 1992).

When the Coalition Government was elected in 1992, it identified the energy industry as the first area of reform because of its centrality in determining Australia's international competitiveness (Ernst 1994b:102). The specific objectives of reform of the energy industry were to retire state debt using the proceeds of sale, to enable consumers to exercise choice of supplier and to achieve the lowest possible cost of supply to consumers (Government of Victoria 1993a: 8.9 - 8.10).

The Coalition Government's competitive reform program for electricity comprised four stages to be implemented over seven years. The *Electricity Industry Act 1993* empowered the Government to restructure as follows:

1. vertical division of the State Electricity Commission of Victoria into three businesses - generation, high voltage transmission and distribution and supply - in 1993
2. formation of five electricity distribution companies and a wholesale market in 1994
3. sale of distribution companies to private owners in 1995
4. staged introduction of consumer choice of electricity supplier from 1994 to 2000

(Office of State Owned Enterprises 1994a, 1994b).

The first three stages are complete. In 1993, Generation Victoria was established to control all electricity generation. It was broken into five separate companies in 1995, each controlling two or more generation plants. These are being progressively sold to private owners.

Powernet Victoria was established in 1993 to control the electricity transmission grid. The government recently reversed its commitment to retain ownership (*Age* 2.4.97:A3). The Victorian Power Exchange operates a wholesale market. It is funded by the industry and will eventually be owned by it.

Electricity Services Victoria was formed in 1993 to manage distribution and supply state wide. It was broken up into five distribution businesses in 1994 covering different geographical regions (Carter 1996). The central business district and the inner northern metropolitan area are served by Citipower; the north west metropolitan region is served by AGL (Solaris up until 1998); the outer eastern suburbs and the eastern half of the state are served by Eastern Energy; the inner east and southern suburbs are served by United Energy; and the outer western suburbs and western half of the state are served by Powercor.

Large consumers of electricity such as industry and large commercial buildings now have a choice of supplier and the Government anticipates that domestic customers will have a choice by the year 2000. However, metering and administration costs may limit the capacity for small consumers to shop around (OSOE 1994a). Domestic electricity tariffs were frozen from 1993 to 1995 and increases were limited to 2% less than CPI in 1996 and 1% less than CPI in each subsequent year to 2000. Pensioner concessions were guaranteed through government defining and funding them as Community Service Obligations (OSOE 1994b). Concomitant with the restructure process has been the development of new regulatory mechanisms.

The regulation of restructured utilities in Victoria

In July 1994, the Office of Regulator General was created with the brief of promoting a competitive market for the restructured state owned enterprises. It also has the role of regulating tariffs and ensuring that customers benefit from the efficiency gains arising from competitiveness and to prevent exploitation by utilities of their monopoly status before the year 2000 (Government of

Victoria 1994:4). The primary role of the Regulator is economic, such as price capping. He may also address social issues and consumer participation processes but these are discretionary (Ernst 1994b:114).

The five privately owned electricity distribution businesses, the three licensed water companies and the three licensed gas retail companies are subject to licence conditions set by the Office of the Regulator General. Consumers have input to these conditions through the Office of the Regulator General's Customer Consultative Committee that was established in 1995 to provide a forum for business, domestic and farming consumers (ORG 1995a). The distribution businesses report to the Regulator quarterly on performance indicators that include electricity disconnection and water restriction rates.

Prior to the establishment of the Office of the Regulator General, consumer advocates called for an independent utility regulator to ensure that benchmark competition worked in the interests of consumers and to replace the consumer protections lost in the reform process such as access to the State Ombudsman and to Freedom of Information legislation (Carver 1994). Consumers called for a regulator with a role of ensuring universal access to supply (Benvenuti 1994). When the Regulator General was appointed, however, he quickly denied a role in social policy. He saw his role as balancing the preservation of customer service standards such as disconnection policies against enabling the utilities to introduce initiatives to increase competition (Davey 1994).

After more than two years of operation of the Regulator General's Office, consumer advocates began criticising it for:

- establishing an overly complex regulatory framework
- insufficient independence from government and
- lack of coverage of social and environmental impacts.

Specifically, consumer advocates called on the government to extend the role of the Regulator to protection of disadvantaged consumers and ensuring access to supply (Walker 1996).

The Victorian Government claims, however, that through the Office of the Regulator General the Victorian community is now receiving the highest level of consumer protection in its history (Stockdale 1997:6). Thus, the promise of the Victorian Coalition Government is that the Victorian community will receive general benefits from the flow-on effects of increased efficiency arising from

the introduction of competition and the profit motive of the electricity industry, with the Office of the Regulator General ensuring that consumers gain some direct benefits from the changes. All of these promises, however, rest on a belief in the economic rationalist arguments of efficiency, competition and consumer choice. The next section challenges these beliefs, outlining alternative arguments of equity and access, citizenship versus consumerism and direction of profits to the public purse so that the flow-on benefits of efficiency reduce rather than increase social and economic divisions.

A challenge to privatisation

Critics of economic rationalism contend that it is flawed in a number of ways: it does not describe actual economic events, its implementation has had a negative effect on the economic well-being of many people (Stilwell 1993:28) and it is based on anti-social assumptions of an 'economic man: a concept of extreme individualism, assuming insatiable desire for commodities, maximising satisfactions, with no reference to other persons or the rest of society' (Wheelwright 1993:19). This has been criticised as an oversimplification of human motivations, ignoring the 'variety of relations between self-interested and generous motives and behaviours which cannot be sufficiently understood, or predicted, by classifying all behaviour as either simply selfish or simply altruistic' (Stretton and Orchard 1994:5).

Specifically, Public Choice Theory has been criticised as an over-simplification of the complex motivations of people who are involved in the provision of public services. Alford argues that all of the players, including parliamentarians, public managers and employees, interest groups and citizens are concerned with more than their own self interest. Further, the separation of policy from service delivery that flows from the logic of this theory results in poor management and relies for its success on the limited capacity of the public sector to specify and monitor outputs (Alford 1994:17-18).

In response to Agency Theory, Alford warns that reducing the influence of consumer interest groups may result in capture of decision-making by commercial interests. He suggests that negotiation and consultation may be a more effective way of mediating conflicting interests than the introduction of market forces (Alford et.al. 1994:17-18). Thus retaining public ownership of

essential services enables all interest groups to participate in debate about the best use of resources to pursue not only economic efficiency but also equity and social cohesion.

Privatisation has also been criticised as short-sighted as public assets are sold to retire debt and the proceeds are not earmarked for future generations (Wiltshire 1987:xii). Ernst argues that the economic rationalist argument that the reduction of debt will benefit all citizens, fails to address the unequal benefit that accrues to the commercial interests that stand to make a profit in the short-term and so are able to realise a benefit much more quickly and clearly than the citizens who have lost tangible assets. The overall economic results of privatisation of utilities has been shown to be a transfer of assets from the general population to a small number of people (Ernst 1994b:109).

A central issue in the ideological battle about privatisation is a disagreement about the primacy of economic policy. Coombs has highlighted the link between economic and social goals:

Despite enormous increases in the range, content and organisational complexity of the system, the basic social purposes of economic activity remain the same... to provide members of the relevant social group... with access to a livelihood; to the material, social, intellectual and (to a degree) spiritual means to a healthy, secure and stimulating life... Judgement of the effectiveness of our... system, therefore, must be based on how far it contributes to the achievement of these purposes, or how far its operation prevents or handicaps their achievement... the end products of the system are qualitative - the health, security and the lifestyle of the members of the society.

(Coombs 1990:2)

The Victorian Government claims that this broader social well-being is best assured by the economic benefits that flow from more efficient operation of services arising from private ownership. Their critics argue that the retention of services in public ownership allows these broader social goals to be addressed directly through public decision-making rather than trusting to the market to provide.

Critics of government provision of goods and services contend that the public sector's contribution to the economy inhibits growth through tax disincentives, welfare expenditure and the limited productivity of the public sector relative to the private sector. They also argue that the social policies of big governments have contradictory results in addressing equity issues and its activities serve to limit individual freedom from constraints (James 1987, Argy 1990). Supporters of public provision, on the other hand, claim that government involvement in the economy can promote economic growth and is, in fact, essential for economic prosperity in the late twentieth century. It is essential to correct market failures and to promote social justice through redistribution of wealth. It is also

seen as essential for ensuring individual freedom, not only freedom from the constraints of economic inequality but also freedom to participate fully in society (Castles and Dowrick 1988, Nell 1988, Saunders 1985, Weale 1983, Wilenski 1986, Cullis and Jones 1987).

These theoretical arguments present a significant challenge to the ideological basis for privatisation. Despite this, the debate about public provision has been quietened in the 1990s with the small government lobby holding sway as though it has won the argument. This has created an atmosphere of acceptance of the inevitability of privatisation of key public services including utilities. Yet there are significant arguments to challenge specifically the wisdom of utility privatisation.

Challenging the rationale for privatisation of utilities

Utilities that rely on significant physical infrastructure, such as the energy industry, are natural monopolies. Despite the vertical and horizontal disaggregation of the electricity industry in Victoria, there remain major barriers to entry for new players. Thus, the threat of competition is minimal (Carter 1996:150) and so the idealised free market vision of economic rationalists cannot be created in the electricity industry. However, even if it could, it is inappropriate to treat energy as a commodity like any other, given its essential nature. It can be argued that fuel exhibits income inelasticity in that consumption does not vary strictly according to price and income. In this way fuel behaves as a necessity (Bradshaw and Harris 1983:41,53) and free market controls do not apply. Further, energy and water are 'merit goods', provided because they are socially desirable. Thus universal access is essential. But the consumerist approach of economic rationalism does not address issues of access (Ernst and Webber 1996:135), trusting instead to the market to provide.

Carter (1996) clearly articulates the key interests of the community in regard to utilities, and includes 'electricity at reasonable prices ... and assured supply to all domestic and community users regardless of economic disadvantage' (p.157). Consumers are justifiably concerned - will private owners pass on efficiency gains as lower prices or retain them as increased profits? And will private owners provide unprofitable services, for example to geographically isolated consumers or to low income households?

Given this, it is unwise to assume, as proponents of privatisation do, that benefits will automatically flow to all. It is necessary to monitor the actual impacts of utility privatisation, especially on the most vulnerable citizens. To date, only very limited research has been conducted.

Existing research on the impact of utility privatisation

A comprehensive theoretical and practical analysis of the financial aspects of privatisation in Australia was published shortly after the Kennett Coalition Government came to power in Victoria (Davis and Harper 1993). No equivalent comprehensive study of the social impact of privatisation in Australia has ever been published. This imbalance is consistent with international trends. In an examination of 52 studies of privatisation in Australia, Britain, USA and Asia, Collyer (1996) found that most focus on the economic outcomes of privatisation and fail to distinguish between different forms of privatisation. By limiting analysis to the actual sale of public assets, each of these studies 'glosses over the complexity of public-private sector relations and obscures the social impact of privatisation' (p. 25).

Collyer identified a small group of studies, however, which adopt a broader definition of privatisation and measure political, social and cultural impacts as well as economic. Most of these studies adopt a political science approach and therefore examine the political process of privatisation rather than the effects. The smallest group of studies Collyer identified were sociological studies that examined empirical evidence of the social impact of privatisation. None of the examples she cited examine the impact of privatisation on disconnection from essential services. Collyer calls for more 'empirical studies which offer critically informed insights into the impact of privatisation' (p.32). This current study responds to her call.

Overseas, it is instructive to consider studies in Britain because of similarities between the privatisation process there and in Australia. Restructure of urban services in other European countries is not directly comparable with Victoria because either the process has been different from that in Victoria or the outcome has been very different (Lorrain and Stoker 1997). For example, in France, the increase in private ownership has arisen out of administrative change rather than political commitment and in Germany, Denmark and the Netherlands, the commitment to public administration is much stronger.

Britain is the only European country with a comparable political commitment to change and a similar increase in private ownership to Victoria. Ernst's (1994a) groundbreaking study of the social impacts of utility privatisation in Britain represents the only major research in this area. He identified four key indicators for measuring these impacts - tariffs, debt and disconnection practices, service standards and mechanisms for consumer representation. Tracing the data revealed by these indicators in the privatised energy and water industries in Britain, Ernst found that overall the results were mixed for most consumers but adverse for low income consumers. In particular, consumers were paying a 'privatisation premium' on tariffs in that the price of energy and water had not reduced at the same rate as the cost of production had reduced. Thus, some of the savings have been pocketed by shareholders. Further, disconnections increased initially in the gas industry after sale to private owners, and only started to decline in all privatised industries after the introduction of pre-payment meters which hid the trends by enabling households in financial difficulty to disconnect themselves. Ernst demonstrated that overall, the British experience of utility privatisation was that service standards do *not* meet the needs of low income consumers.

Following Ernst's study, which provides a useful guide to those indicators that may cast light on the impact of privatisation of vulnerable consumers, disconnection rates have been selected for examination in this study in order to assess the social impact of utility privatisation in Australia.

This study is a response both to the lack of similar empirical data and to the concerns of the consumer movement. Fuel poverty is an issue of major concern to consumer groups and can be defined as 'the inability to afford adequate warmth in the home' (Lewis 1992). Fuel poverty is indicated by increasing rates of disconnection among other things, and can be distinguished from general poverty because the most effective way of lessening fuel poverty is through capital investment, that is, increasing the energy efficiency of the home, rather than through additional income support to energy consumers (Boardman 1991). Immediately prior to the sale of the electricity distribution businesses in Victoria, two studies of consumer concerns about fuel poverty were published. The Consumer Advocacy and Financial Counselling Association of Victoria documented deficiencies in disconnection practices, customer service standards and government assistance schemes in relation to the electricity industry, as reflected in casework demands on financial counsellors (Benvenuti and Walker 1995). This study did not attempt to quantify problems or trace trends but it did identify significant inconsistencies in the policies and practices of the utilities in regard to debt collection and disconnection from supply.

Simultaneously, the Victorian Council of Social Service (1995) published findings on the same indicators, as revealed by expenditure of emergency relief agencies. Neither of these studies attempted to track trends in customer service standards over time and so, while they provide a useful snapshot of the social problems experienced at that point in the privatisation process, they do not cast light on which aspects of these problems are directly attributable to privatisation. This study is an attempt to fill this gap.

This chapter has demonstrated that the positive outcomes of privatisation assumed by economic rationalists are by no means certain. Thus it has established the need for empirical research into the social impact of privatisation. The next chapter describes the current study into trends in domestic disconnections in the Victorian electricity industry over the entire process of privatisation, including commercialisation, corporatisation and sale to private owners.

CHAPTER 3: EVALUATING THE SOCIAL IMPACT OF UTILITY PRIVATISATION

In the previous chapter, the process of utility reform in Victoria under the Coalition Government was described and the rationale for these reforms was outlined. Some significant theoretical criticisms of this rationale were documented, which challenge the assumption of economic rationalism and so highlight the need for monitoring of actual impacts on consumers. A review of existing research into the impact of utility privatisation on consumers demonstrated an urgent need for empirical research on the social impacts of utility privatisation in Australia. This chapter describes the research conducted for this study into disconnection rates in the electricity industry and reveals that vulnerable consumers have suffered a systematic reduction in access to essential power in the privatisation process.

This study examines trends in electricity disconnections over the twelve years prior to the sale of electricity distribution to private owners and for the period since. It is important to look back as well as at current data for two reasons. First, examination of historical data enables the establishment of a benchmark for evaluating the performance of the privately-owned utilities based on a best practice rate of disconnection under public ownership. Second, an examination of trends during the periods of commercialisation and corporatisation of the SECV, as well as after sale, enables evaluation of the impact of the full process of privatisation.

Definitions of privatisation

Collyer's (1996) analysis of 52 studies of privatisation found that most studies adopt a very narrow definition of privatisation, as being limited to the sale of public assets to the private sector. Consequently, the focus of these studies is also narrow.

In Victoria, both the previous ALP Government and the current Coalition Government have adopted this narrow definition of privatisation. The ALP Government's policy discussion paper on corporatisation distinguished between commercialisation, corporatisation and privatisation. It defined commercialisation as the introduction of commercial principles to the operation of a government business enterprise, such as charging market prices, but with the retention of public

sector guidelines. In contrast, corporatisation was defined as the separation of management from government, usually through the establishment of a Board of Management and usually operating in a competitive market. Privatisation was a label reserved for the situations of ownership by private interests, where the 'entity has no aspect of public good or public interest within its operations' (Government of Victoria 1991:10).

This matches closely the Victorian Coalition Government's definitions, in which the definition of privatisation is limited to the sale of public assets to private owners, distinguishing it from corporatisation in which organisations operate on a fully commercial basis while under public ownership (Government of Victoria 1993:8-6).

Many studies of privatisation, however, adopt a broader definition in which sale of public assets to private interests represents just one form of privatisation (Lorrain and Stoker 1997; Ernst and Webber 1996). Other forms include all activities aimed at increasing the private sector, reducing the public sector and improving the performance of the remaining public sector. Under this definition, privatisation includes activities such as tendering out and the introduction of competition into the public sector. Collyer's analysis suggests that studies which adopt a broad definition of privatisation are able to examine the full range of impacts of the privatisation process.

The current study adopts this broad definition in order to enable examination of an aspect of the impact of privatisation that has largely been neglected in the existing literature - the social impact on low income disadvantaged consumers. Thus, this study traces trends across the twelve year period that includes the operations of the SECV prior to the introduction of commercialisation and corporatisation, during the corporatisation process and after the sale to private owners. It focuses on trends in disconnection from supply as an indicator of the social impact on low income households.

Rationale and significance of trends in domestic disconnections

This study is not concerned with disconnection from electricity on request by the customer. It is only concerned about disconnection for non-payment of bills. Disconnection from electricity supply has a major impact on households in the late 20th century where our standard of living is dependent on electrical appliances such as light, cooking and entertainment. Thus, the willingness of

a utility to make a special arrangement to maintain supply to households experiencing difficulty paying is an important indicator of standards of customer service. Trends in disconnections for non-payment of bills are seen as an important indicator of service standards not only by consumer advocates (see for example Energy Action Group 1983a, Benvenuti 1994) but also by the Federal regulator. Professor Alan Fels, chairman of the Australian Competition and Consumer Commission claims that debt and disconnection policies of utilities are of key concern as a service standards issue which must be protected against sacrifice to higher profits (Fels 1994). Similarly, Ernst (1994a) identified trends in disconnections as a key indicator of the social impact of utility privatisation in the UK².

There are, of course, a range of factors which may contribute to changes in the number of households disconnected from electricity for non-payment of bills (Ernst 1994a:136, 139). These include factors that are outside the control of the utilities and are clearly not attributable to the privatisation process, such as changes in the population of customers and changes in the economy affecting disposable income. There are, however, other factors which contribute to changes in disconnection rates which are clearly within the control of the utilities and which can be characterised as casualties of the pursuit of profits, including changes in tariffs and utility policies regarding flexible payment and waiving of bills for households in need. The capacity of utility companies to exert significant control over the rate of disconnections has been confirmed by several studies in the United Kingdom (see, for example, Berthoud 1981: 18, Cooper 1981: 50 and Rowlingson and Kempson 1993).

It is apparent that the Victorian Government also perceives that utilities have a significant degree of control over disconnection rates. In September 1994, Government policy directed the Office of the Regulator General (ORG) to require the electricity distribution businesses to develop and publish 'disconnection policies, practices and procedures which will be at least equal to those now applying' (ORG 1995b:40).

² Ernst found that the private utilities were not as stringent with regard to disconnections as was feared by consumer organisations. Disconnections varied from industry to industry and from company to company. However, overall low income customers were disadvantaged through increased disconnections, either in the lead up to sale to private owners, after sale or through the imposition of self-disconnection through pre-payment meters (Ernst 1994a:139-143).

In the water industry in UK, there was an 800% increase in domestic disconnections in the 7 years during which the water companies were commercialised in preparation for sale. In gas, disconnections increased initially after sale and only started to decline when pre-payment meters were introduced. There was a steady decline in disconnections in electricity where pre-payment meters were introduced before sale to private owners.

Similarly, the Office of the Regulator General has indicated a belief in the capacity of the utilities to control disconnections; the performance indicators set by the Regulator to monitor adherence to licence conditions include a measure of disconnections (ORG 1995:8). A statement by the Regulator regarding a 38% increase in disconnections by one of the private distribution companies vividly demonstrates his belief that the companies have significant discretion over disconnections:

‘United Energy’s performance is simply not good enough in circumstances where it is announcing profits over and above those projected for it by the Government. United needs to improve its strategy. If United does not lift its game, the Office will be exercising its powers to ensure a fair sharing with its customers of the benefits United has achieved.’

(ORG 1996)

The current study examines data that assists in clarifying the relative contribution of different factors to changes in disconnections. However, the tracking of the trends in domestic disconnections prior to privatisation has, in itself, been a controversial issue in the media and within the Customer Consultative Committee of the Office of the Regulator General. The Energy Action Group, a community watchdog funded by the Victorian ALP Government, collected and published SECV disconnection figures over a twelve year period. These figures have been frequently quoted to challenge the Government’s claims of improvements under privatisation (see for example *Age* 4.10.95:4; *Herald-Sun* 19.7.95:4). However, the veracity of these figures has been questioned because data sources were not systematically documented. This study has preempted such criticism by systematically documenting all sources of data and explicating the calculations that give rise to the disconnection figures.

Availability of sources of data on disconnection rates

There is no single source of a continuous time series of disconnection data to enable a longitudinal study of the electricity industry in Victoria. The data used for this study have been compiled from a range of sources.

The SECV was inconsistent in its publication of disconnection figures. Therefore, the Energy Action Group’s sources are varied and include public documents as well as data gained through Freedom of Information requests and obtained through representation on Government consultative committees.

These findings reinforce the view that in order to examine fully the impact of utility privatisation, it is essential to

This paper details for the first time the sources of all of the data (see Appendix I). Most of the sources are held in the Urban and Social Policy Collection at the Victoria University of Technology library, St. Albans Campus. Others are on public record at the Office of the Regulator General, the Victorian Council for Social Service and the Department of Agriculture, Energy and Minerals. Disconnection figures for the period from early 1991 to mid 1994 are available in letters from the SECV in response to requests from the Energy Action Group under the Freedom of Information legislation. These are held at the Victorian Council of Social Service. From mid 1994 until March 1997, the Office of Regulator General produced public reports on monthly disconnection figures. These reports ceased for twelve months and in early 1998 a report was produced which provided average annual figures only. Thus, it is possible to study trends in monthly figures only up to March 1997.

Photocopies of the sources are available on request from the Financial and Consumer Rights Council (see Appendix III).

The veracity of the data sources

Official figures for SECV domestic disconnections were publicly available in the mid 1980s through the monthly publication *Board Summary - A summary of minutes of SEC Board meeting*. There are gaps in the series, however, and public dissemination of disconnection figures stopped in mid 1988.

The figures for November 1985 to March 1986 are contained in a document entitled *Disconnection for Non-Payment to January 1987* which is held in the Urban and Social Policy Collection at the Victoria University of Technology library, St. Albans Campus. This appears to be one of a series of monthly reports of the SECV to a committee on which the Energy Action Group was represented, the Domestic Energy Consumers Consultative Committee³. Figures for the three year period to mid 1991 are included in similar monthly reports.

examine disconnection trends longitudinally and to examine closely the causes behind the trends.

³ Source - interview with Gavin Dufty, previously staff member with Energy Action Group (EAG) who attended these meetings which were convened by Department of Energy and Minerals (later Department of Industry, Technology and Resources), chaired by a senior bureaucrat from the Department and attended by officers of SECV and Gas and Fuel. It operated from about 1985 to 1990, and reconvened in 1991 - 92. Members included EAG, Victorian Council of Social Service, Good Shepherd and the Salvation Army.

The veracity of these sources has also been confirmed by Garth Sullivan, previously District Manager with the SECV.

There is overlap between the periods covered in these reports and those covered in the Board Summaries. The veracity of the data is supported by a comparison of the figures included in these reports with those publicly reported in the Board Summaries. As the figures in the report *Disconnection for Non-Payment to January 1987* are entirely consistent with those published in the Board Summaries, it would appear that the former is a genuine departmental report and so the figures for the period not included in the Board Summaries would appear to be reliable. See Appendix 1 for details.

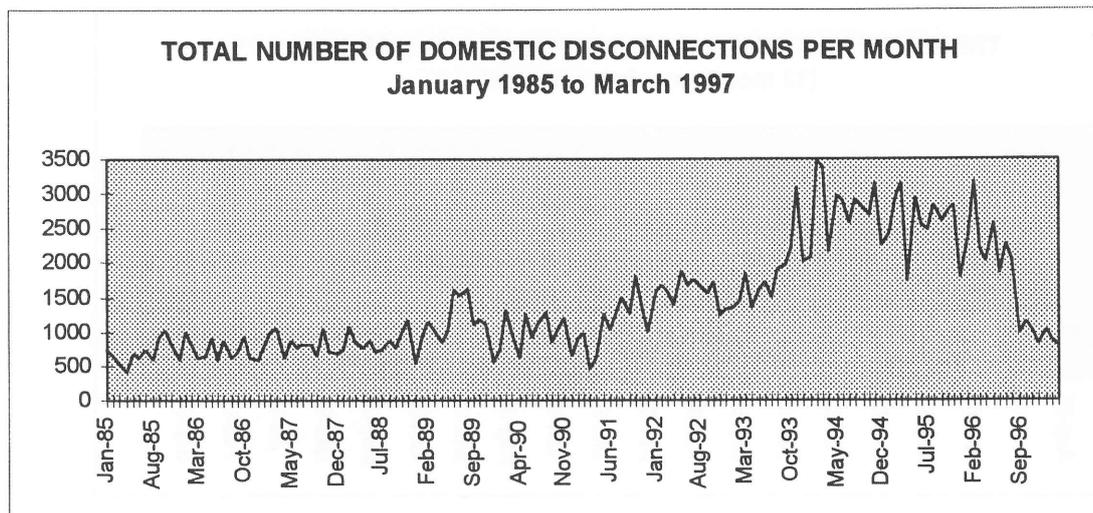
Trends in domestic disconnections

This study examines historical trends in disconnections while electricity was under public ownership both before and after commercialisation and corporatisation, as well as changes in domestic disconnections since the sale of the Distribution Businesses to private owners. The detailed examination below reveals three distinct periods - an extended period of relatively low domestic electricity disconnections while electricity was under public ownership which represents a benchmark of best practice, followed by a period of increasing domestic disconnections during the process of commercialisation and corporatisation and finally a period of declining disconnections since the sale of distribution and retail to private owners. Despite this decline, however, some of the private distribution businesses are still disconnecting more households each month than was the case historically under public ownership before the privatisation process began.

Trends in absolute numbers of domestic disconnections

Figure 1 below shows significant variation from month to month in the number of households disconnected from electricity supply in the ten year period leading up to the sale of electricity distribution and retail in 1995 and in the period to March 1997.

Figure 1



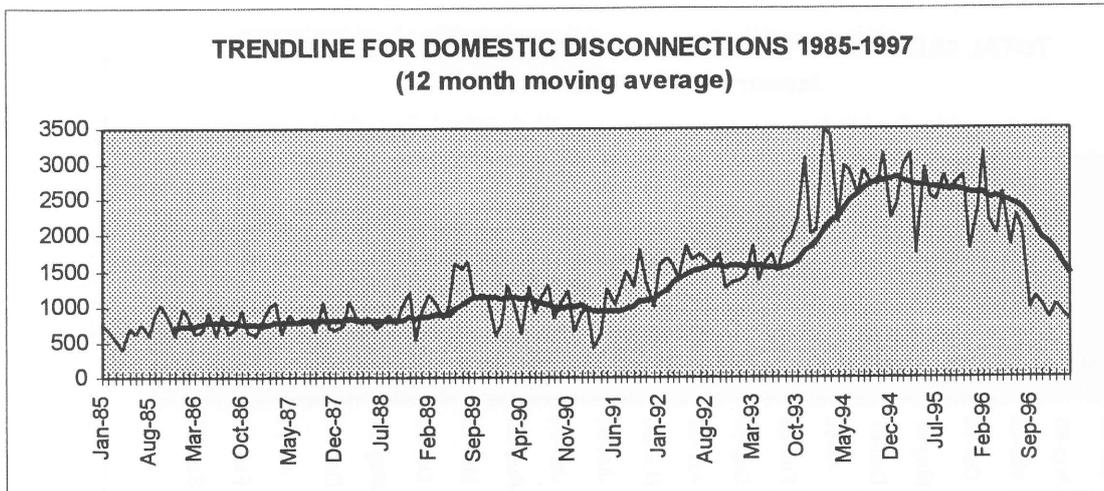
Source: See Appendix III

It is apparent, however, that there is an underlying trend - the number of domestic disconnections fluctuated around a relatively constant level each month for several years from 1985, then increased regularly in the early 1990s. It levelled out in the mid 1990s before starting to decline.

Eliminating seasonal variations by plotting the moving average⁴ shows these trends more clearly - see figure 2 below. It is possible to discern three distinct periods in this trendline: a period of relatively **consistent** average monthly domestic disconnections for seven years to the end of 1991, a period of **increase** in disconnections for three years to the end of 1994 and a period of **declining** disconnections for two years to the end of 1996. Current trends are explained separately.

⁴ In the 12 point moving average utilised here, the average for each month is calculated as the average for the 12 preceding months. Further averages are obtained in succession by omitting the oldest measure and taking into account one new measure each time [Source - Walker and Maclean (1973) *Ordinary Statistics* Edward Arnold (Publishers) Ltd., London: 47]. In this way seasonal variations are minimised and underlying trends are revealed.

Figure 2:



Source: See Appendix III

1. Seven years of consistent monthly domestic disconnections - A Benchmark of Best Practice

The trendline shows a consistent average of under 1,000 households disconnected from electricity per month in the period 1985 to early 1989. While the deviation from the average became greater after 1989, by mid 1991 the average monthly disconnections had declined to the same level as the late 1980s. The average number of domestic disconnections did not return to this level for several years. Therefore, despite the temporary increase in average disconnections in late 1989, it is possible to characterise this whole period as a period of consistency in the number of households disconnected from electricity each month.

An average of 900 households were disconnected from electricity each month for the seven years from 1985. Given the length of this period and the consistency of the trend, it is reasonable to characterise this figure as the benchmark of best practice of the SECV.

2. Three year period of rapid increase in monthly domestic disconnections - A Tripling of Domestic Disconnections

Between the end of 1991 and the end of 1994, the average number of households disconnected from supply each month by the SECV increased by 300% to 2,700. Despite a temporary levelling out in the average number of households disconnected from electricity at about 1,500 each month for a year in the middle of this period - from mid-1992 to mid-1993 - disconnections showed no

sign of returning to the best practice level of 900 per month. Thus, this period can be characterised as three years of rapid increase in domestic disconnections.

3. The start of a decline in domestic disconnections

The trendline shows a consistent decrease in average monthly domestic disconnections for two years from the historical high point of about 2,700 households disconnected from electricity in January 1995. The absolute number of domestic disconnections in December 1996 had declined to the level of best practice of the SECV of 900 per month; the moving average, however, showed an underlying trend in which average monthly disconnections were still double the level of the SECV best practice.

4. Current trends

The annual disconnection figures for 1997 show that the average number of disconnections per month remained slightly below the level of the SECV best practice, at 858 per month. In the absence of monthly figures, it is not clear, however, whether the number of disconnections has remained steady at this level or whether it dropped lower and is now in another period of growth¹. Certainly, it is apparent that the Victorian community has experienced more than five years of increased electricity disconnections in the period leading up to and following sale to private owners.

Where a household is disconnected from supply because of non-payment of a bill, this is due to either a genuine inability to pay or a deliberate choice not to pay. This study is concerned with the treatment of households in financial difficulty. Therefore, it is necessary to distinguish the former group from the latter.

Types of disconnection - skippers and temporary disconnections

Figures kept by the electricity industry for domestic disconnections include two distinct groups - households that are later reconnected to electricity in the same name at the same address and those that are not. The latter group is known in the industry as 'skippers' (ORG 1997:37) and includes households that choose not to pay their final bill when moving out of a house, and possibly also some households that cannot afford a reconnection fee and move or become homeless upon

¹ Since this paper was written, the Regulator General has produced a graph on bi-monthly disconnection figures for the period to June 1998. This graph shows that domestic disconnections have remained constant at 800 to 1000 per month since November 1996.

discovering that life without electricity is unsupportable. Such households could be characterised as experiencing extreme hardship (Berthoud 1981).

This study is not concerned with trends in disconnection rates for skippers, primarily because it seems more probable that no one is living without power in the majority of these cases, and alternative cases are almost impossible to substantiate. The primary concern is with people who are reconnected in the same name at the same address and therefore were living without power for the identifiable period of the disconnection. This group is termed 'temporary disconnections' in this paper.

The consumer movement characterises households that are temporarily disconnected as those that are willing to pay their electricity bills but cannot afford to do so within the payment terms offered by the electricity supplier. The electricity industry claims that these temporary disconnections include a significant number of households who deliberately withhold payment in order to maximise their cash flow; thus, the industry believes that it is justified in inflicting consequences on these households in the form of withdrawal of supply in order to encourage them to place a higher priority in future on payment by the due date.

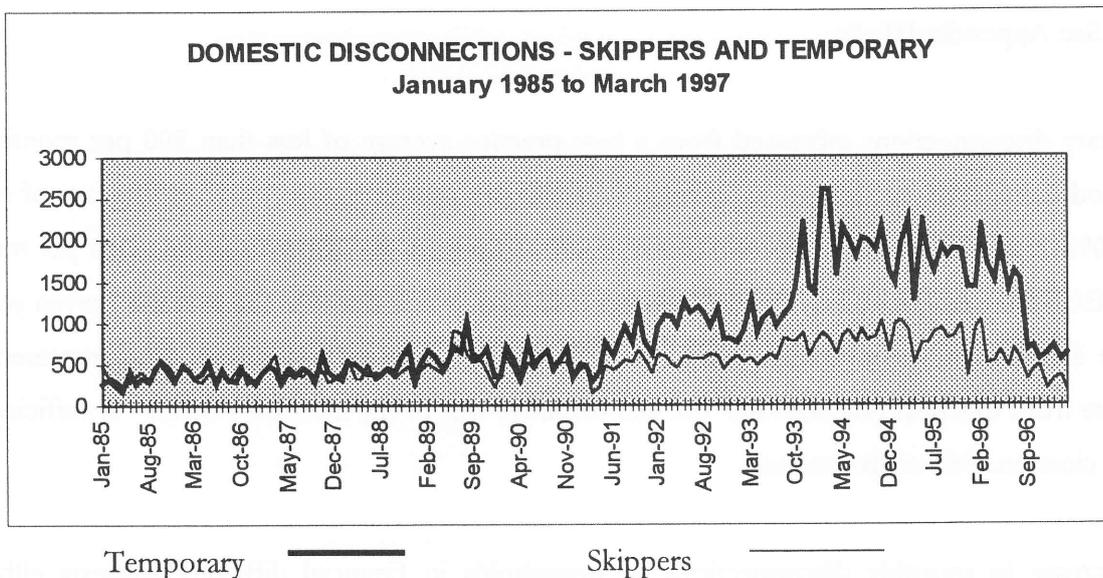
There is almost no support for the industry's interpretation in the literature. Rather, previous research demonstrates that disconnections are a form of 'punishment' that has the least effect of those that most 'deserve' it. Having interviewed forty-five utility customers who were at risk of getting into arrears (33 of whom were subsequently disconnected), Rowlingson and Kempson found only one example of someone rorting the system. Even people who had been disconnected regularly blamed no one but themselves and 'felt a strong obligation to pay all that they owed' (Rowlingson and Kempson 1993: 52). Similarly, Berthoud (1981) proposed that the 'won't pay/can't pay' dichotomy is unhelpful. Instead, he argued that non-payment could be seen in terms of debtors' 'lying low in an attempt to put off the day of reckoning, rather than as a calculated and dishonest attempt to cheat the industries of their money' (Berthoud 1981: 135).

Informed by these previous findings, this study has also adopted the consumer movement's characterisation. A cursory analysis of the increasing disconnection rates in Victoria in the early 1990s lends additional support for the decision to adopt this characterisation. Living without power, even for a few hours, is highly undesirable in the late 20th century when living standards depend to a large degree on electrical appliances. It is therefore reasonable to assume that households that are

disconnected because they choose not to pay will only be disconnected once and henceforth will place a higher priority on paying by the due date. It is unlikely then that there would be a steadily increasing number of households that are disconnected each month due to a deliberate choice not to pay their bills. Thus, any upward trends in disconnection rates are more likely to be caused by households that are genuinely unable to pay.

The conclusions of this study are therefore based on the assumption that the trends in temporary disconnections are indicative of trends in the experiences of people who are willing to pay but unable to afford their electricity bills. Figure 3 shows that disconnection of 'skippers' remained relatively steady while temporary disconnections grew dramatically in the early 1990s.

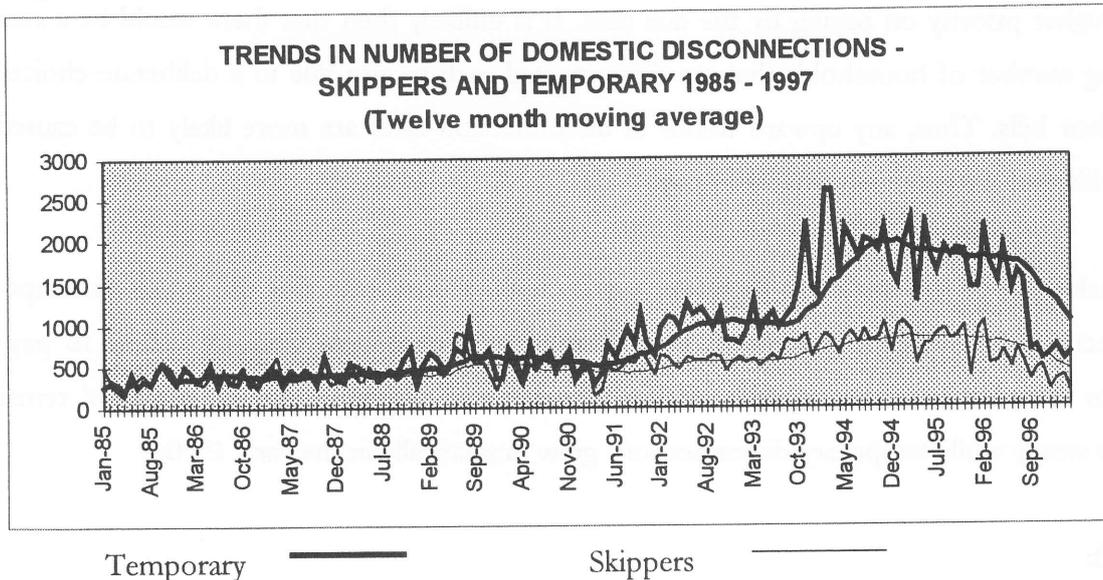
Figure 3:



Source: See Appendix III

Thus, the increase in denial of access to supply was not a reflection of an increase in the number of people choosing to skip out on paying a final bill. Rather, it was visited primarily on people unable to pay. Again, the trendline plotted in figure 4 below displays this vividly.

Figure 4:



Source: See Appendix III

Temporary disconnections increased from a best practice average of less than 500 per month for the period from 1985 to 1991 to an average of 1,800 per month in late 1994, an increase of more than 350%! It is reasonable to take the figure of 480 temporary domestic disconnections per month as the SECV best practice given the extended period over which this was the average - seven years - and the stability of the average. Thus, the increase in disconnections from 1991 represents a departure from this best practice rate. The extraordinary size of the increase - 350% - is sufficient to warrant close analysis of the causes.

This increase in monthly disconnections of households in financial difficulty suggests either a toughening in SECV policy with regard to people unable to pay or an increase in the number of households experiencing difficulties paying bills. This study contends that the former is the cause as the analysis below eliminates the latter explanation.

Impact of population changes on disconnection trends

An increase in the number of households experiencing difficulty in paying bills could be caused by either an overall increase in the population of domestic customers or by an increase in the proportion of domestic customers experiencing difficulty paying due to economic factors. The first

of these possible causes is examined below and shown not to affect the trends significantly. The second is considered in the next chapter.

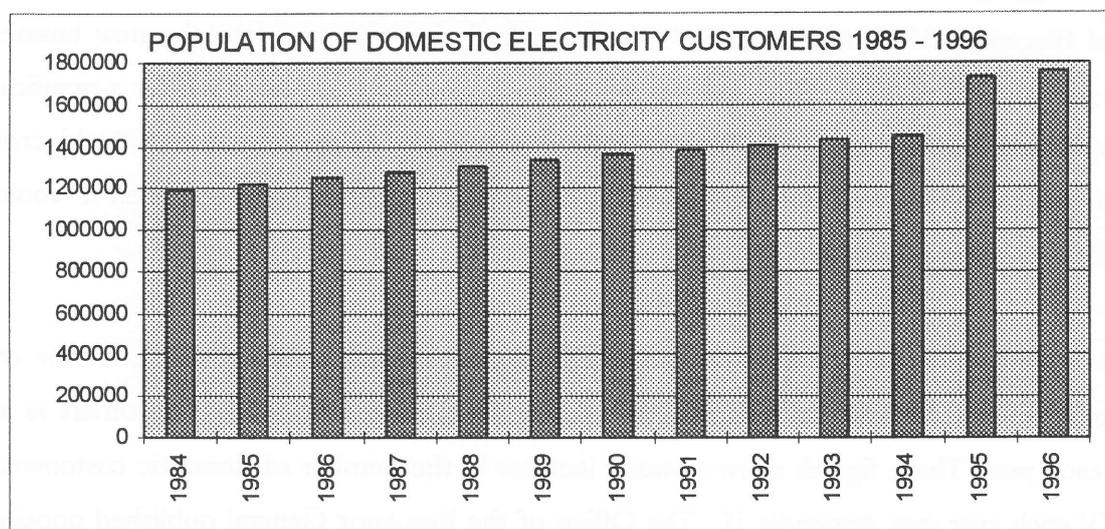
The total population of domestic customers of the electricity industry in Victoria has increased steadily over the period of this study. Thus, some of the increase in disconnections may be due simply to more households being customers and so be unrelated to the privatisation process. Also, after the disaggregation of the SECV into five distribution businesses, the domestic customers of Municipal Electricity Undertakings (MEUs) were gradually incorporated into the new businesses over the period 1992 to 1994. Thus, the disconnection figures for this period are for a significantly larger population than for the SECV figures. If the population of domestic customers had increased sharply at the same time that the number of domestic disconnections increased, then it would be reasonable to assume a causal link.

Like the disconnection figures, however, population figures are not readily available for the entire period under review. The SECV published figures for the number of domestic customers as at 30 June of each year. These figures show a steady increase in the number of domestic customers for the SECV each year (see Appendix II). The Office of the Regulator General published population figures for domestic customers of each of the separate electricity distribution businesses for July 1994. For the purpose of this study, the total population is calculated as the sum of these figures. They show a substantial increase on the previous year's figures as some of the domestic customers of Municipal Electricity Undertakings are included.

Since the Distribution Businesses were empowered to compete for customers among large consumers of electricity, their customer numbers have been considered to be 'commercial in confidence'. Thus, no figures for the population of domestic customers have been published since September 1994. However, it is possible to estimate the number of domestic customers with a high degree of accuracy from the disconnection data published by the Office of the Regulator General. For the purpose of this study, the population of residential customers of each of the distribution businesses has been calculated from the number of domestic disconnections and the rate of disconnection per thousand households. A slight inaccuracy is introduced by the fact that the Office of the Regulator General figures for the rate of disconnection are quarterly averages rather than monthly figures; however, the inaccuracy is minimal.

Figure 5 shows the annual increase in the population of residential electricity customers in Victoria for whom disconnection data is available. It reveals a relatively steady increase each year except in 1995 when most of the customers of the Municipal Electricity Undertakings (MEUs) were incorporated. Therefore, overall population increases do not explain the increase in domestic electricity disconnections in the period from 1991 to 1994.

Figure 5:



Source: See Appendix II

Trends in the rate of domestic disconnections

It is possible, however, that the increase in the total population of domestic electricity customers included in the disconnection figures brought about by the incorporation of customers from the MEUs may have affected the disconnection figures. This would occur if, for example, these customers had a different socio-economic profile from SECV customers or if they were accustomed to a more liberal debt collection regime.

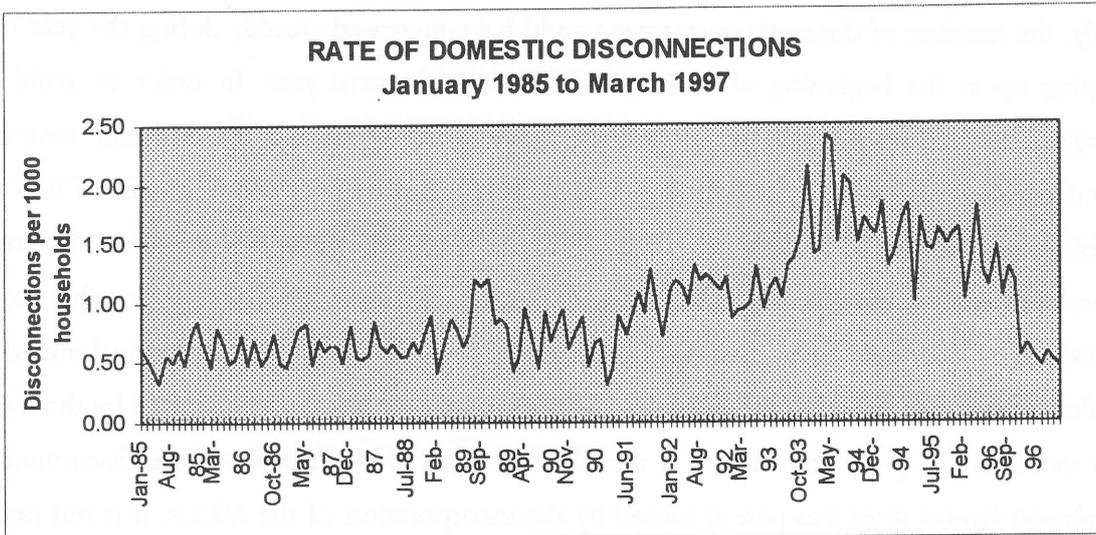
It is useful, therefore, to remove the contribution made by the population change and so to reveal trends attributable to other factors. This can be achieved by tracing trends in disconnections per thousand households rather than absolute numbers. While monthly disconnection figures are available, data on the population of domestic households is available on an annual basis only until 1993. Since 1994, the Office of the Regulator General's disconnection data enables estimation of the population on a quarterly basis.

Obviously, the number of domestic customers would have increased steadily during the year rather than leaping up at the beginning of each quarter or each financial year. In order to avoid over estimating the rate of disconnections by under estimating the population of domestic customers, monthly domestic customer population figures have been calculated for the purposes of this study in the following manner. For each year from 1984 to 1993, the published number of domestic customers has been recorded as the population for June of that year. The average monthly increase in the number of domestic customers has been calculated by dividing the total annual increase by twelve. For intervening months, the published population figure has been increased by the average monthly increase. No population figure is available for June 1994. Because of the discontinuity in the population figures after this period caused by the incorporation of the MEUs, it is not possible to calculate the actual average monthly increase. So, the average monthly increase for the period from July 1993 to August 1994 is assumed to be the same as that for the year July 1992 to June 1993.

As for the SECV, the monthly population figures for the Distribution Businesses are assumed to increase equally. Appendix III explains how to access the primary source data as well as the figures calculated from this data. Using these estimated monthly population figures, monthly rates of disconnection have been calculated in a manner which avoids over estimation of disconnection rates through under estimation of population.

Figure 6 below reveals a similar trend in rates of domestic disconnections to that of absolute numbers of domestic disconnections. Again, there are significant variations from month to month, with three underlying phases - a steady rate of disconnection for several years to the end of 1991; increasing rates of disconnection in the early 1990s; then a decline in the rate of disconnections in the mid 1990s.

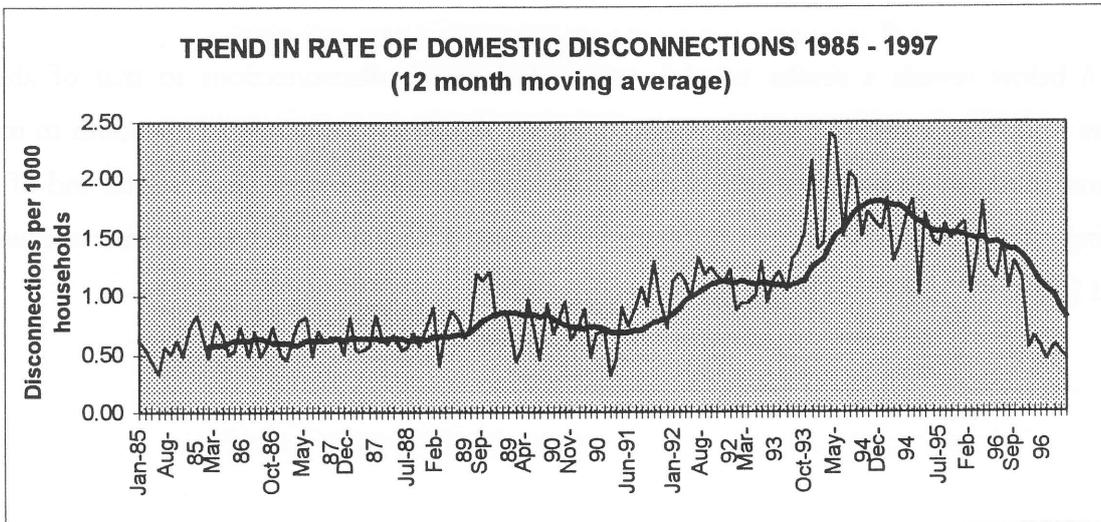
Figure 6:



Source: See Appendix III

Plotting the trendline - see figure 7 - shows the same pattern as the trendline for absolute numbers of households disconnected (see figure 2 above). The best practice of the SECV was achieved in the period 1985 to 1991 at an average of 0.7 households disconnected per month per thousand domestic customers. In the period 1992 to 1994, the rate of disconnections increased by more than 250% to an average of 1.8 households disconnected per month per thousand domestic customers.

Figure 7:



Source: See Appendix III

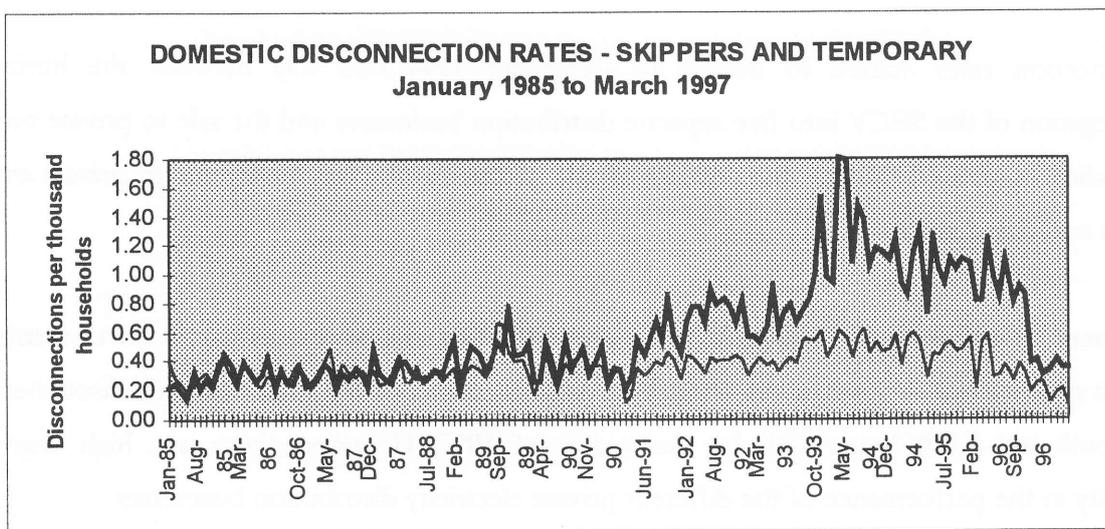
The above analysis reveals that the increase in disconnections between 1991 and 1994 was clearly not caused by the general increase in the population of domestic customers or by the incorporation of customers of MEUs.

Skippers or temporary disconnections?

Prior to 1991, domestic disconnections fluctuated around an average of 0.7 households disconnected each month per thousand households. As figure 8 shows, this was made up of equal numbers of skippers and temporary disconnections.

Plotting the trendline for the rate of temporary disconnections per thousand households again reveals three distinct phases (see figure 9). This figure shows a clear upward trend from late 1991 when the rate of temporary disconnections started to increase from the best practice rate of 0.4 households disconnected per thousand domestic customers. The peak was reached in late 1994 when the rate was 300% higher, 1.2 households temporarily disconnected per month per thousand domestic customers.

Figure 8:

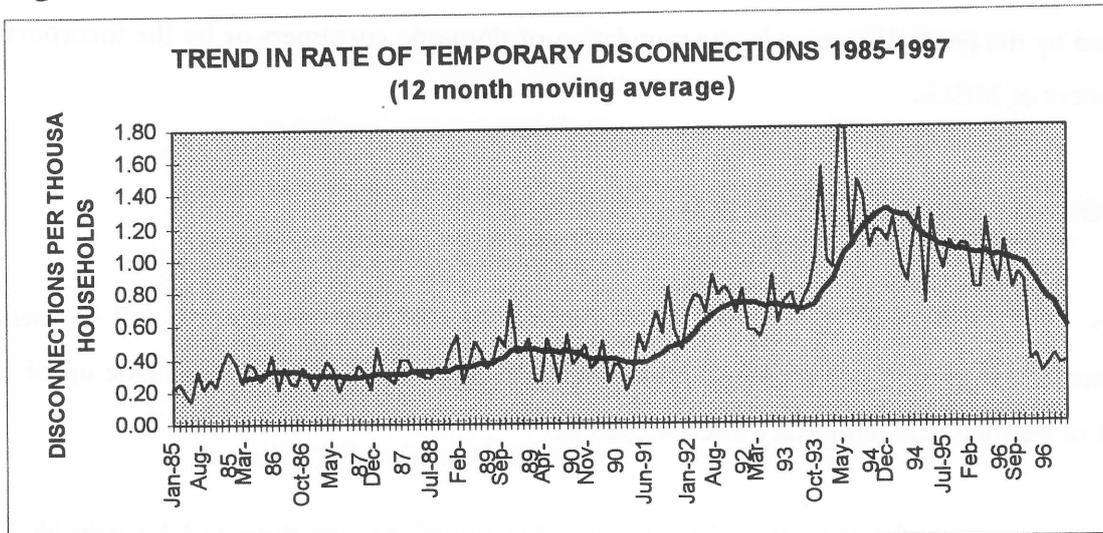


Temporary

Skippers

Source: See Appendix III

Figure 9:



Source: See Appendix III

It is apparent that households in financial difficulty have endured an increased incidence of disconnection from essential power in the four years leading up to the sale of electricity distribution in Victoria. Even after eliminating the influence of population changes and of households skipping out on paying final bills, there remains a dramatic increase of 300% over this period from the rate of best practice of the SECV of 0.4 households disconnected per month per thousand domestic customers.

Disconnection rates started to decline in December 1994 mid way between the horizontal disaggregation of the SECV into five separate distribution businesses and the sale to private owners. The decline continued through the process of sale of the distribution businesses to private owners and has continued since.

On current trends, it could be expected that domestic disconnection rates would have returned to the best practice SECV level of 0.4 temporary disconnections or 0.7 total domestic disconnections per month per 1,000 households by the middle of 1997. However, there is a high degree of variability in the performance of the different private electricity distribution businesses.

Trends in domestic disconnections since sale to private owners

When the SECV was broken up into five distribution businesses in July 1994, each was performing very differently in regard to the rate at which they disconnected households from supply for failure to pay bills. Figure 10 and Table 1 below show the detail.

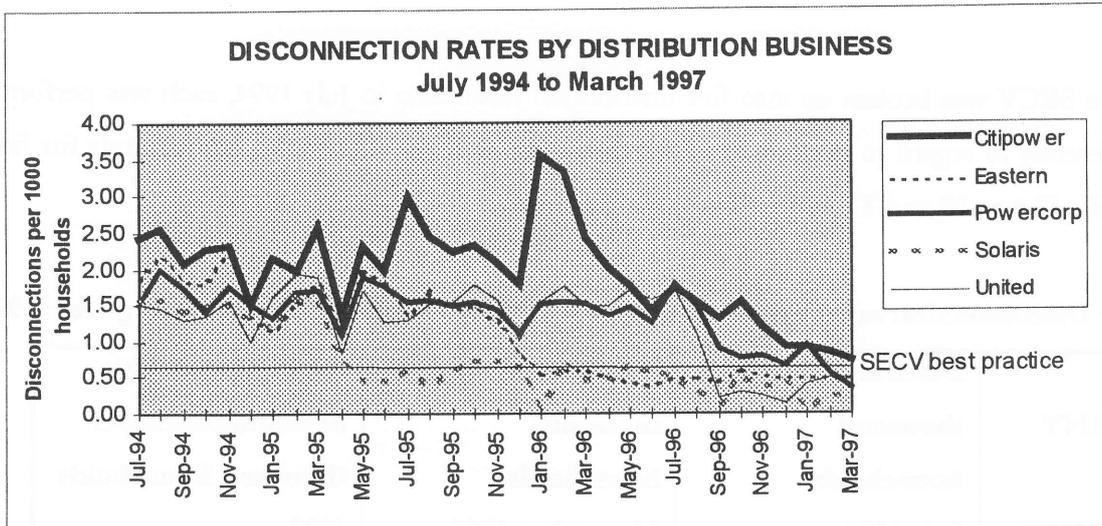
Table 1: Disconnection rates by company - July 1994, November 1996 and average for 1997

COMPANY	Disconnections per thousand households July 1994	Disconnections per thousand households November 1996	Average monthly disconnections per thousand households 1997
Citipower	2.41	1.19	0.83
Eastern	1.84	0.52	0.54
Powercor	1.51	0.77	0.50
Solaris (now AGL)	1.55	0.38	0.33
United	1.51	0.23	0.34
ALL COMPANIES	1.50	0.58	0.48

Source: See Appendix III

The average rate of domestic disconnection at the time the SECV was broken up was more than 200% of the SECV best practice of 0.7 per thousand at 1.5 households disconnected per thousand domestic customers. One of the newly formed distribution businesses, however, was performing much worse than this average - Citipower.

Figure 10:



Source: See Appendix III

In July 1994, Citipower disconnected households at a rate of 2.4 per thousand domestic customers, which is more than triple the best practice of the SECV. In contrast, Solaris² and United Energy disconnected slightly more than 1.5 households per thousand domestic customers. Since disaggregation, the performance of the distribution businesses has continued to be highly inconsistent.

Citipower, which tops the graph almost every month, serves the disadvantaged inner northern region of Melbourne. Thus, disadvantaged households with the least market power are suffering a disproportionate share of denial of access to essential power.

Eastern Energy, which started with a disconnection record almost as bad as Citipower's, reduced its disconnections in 1996 to equal the best performer, Solaris. However, its average monthly rate of disconnection worsened in 1997, although it remains below the level of SECV best practice. It serves the outer eastern metropolitan region, one of the fastest growing parts of the city with significant pockets of poverty, as well as the rural east of Victoria.

Powercorp serves the disadvantaged outer west of Melbourne and rural western Victoria. It started as an average performer but has failed to reduce its disconnection rate as quickly as others and so it remains above the average rate of domestic disconnections.

Solaris serves the north west metropolitan region that suffers one of the highest rates of unemployment in the state. It was the first to reduce its disconnection rate to the rate of best practice of the SECV. This supports the contention that disconnection rates are related more to the attitudes and practices of the electricity companies than to the socio-economic status of their customers.

Finally, United Energy serves the privileged inner eastern metropolitan region as well as the disadvantaged southern region. It was slow to reduce its disconnection rate but by the end of 1996, it was the best performer and during 1997 it remained approximately equal to Solaris.

In mid 1995, Solaris dropped below all of the other companies in its rate of domestic disconnection. At less than 0.7 households disconnected per month per thousand domestic customers, it was improving on the rate of SECV best practice. Since the end of 1995, Eastern Energy's rate of disconnections dropped to meet that of Solaris. However, United Energy did not reduce its disconnection rate to the rate of best practice of the SECV until September 1996. Powercor maintained disconnection rates at more than double the rate of SECV best practice until mid 1996 and was still disconnecting households at a higher rate than the SECV at the end of 1996. Citipower, in particular, has maintained a high rate of disconnections, still disconnecting at twice the rate of the SECV best practice at the end of 1996. According to the latest available figures, Citipower is still disconnecting at a higher rate than the best practice of the SECV. This information clearly shows that the disadvantaged regions of Victoria - the inner north and the outer western metropolitan regions - have suffered particularly from the tardiness of electricity distribution businesses to lower their rates of disconnection.

Summary

The foregoing analysis of trends in the rate at which domestic customers have been disconnected from essential power in Victoria reveals a clear increase in average monthly disconnections over the 1990s that is unrelated to population changes or to the incorporation of customers of the MEUs. The SECV best practice was achieved in the period 1985 to 1991. In this time, average monthly domestic disconnections were 0.7 per thousand households, which is still high by international

² Solaris is now known as AGL

standards⁵. In the period 1992 to 1994, the average increased by 250% to 1.8 per thousand households. The monthly average declined in 1995 and 1996 but did not return to the level of SECV best practice until 1997. Further, the average disconnection figures for the state mask highly varying performance by individual electricity distribution businesses, with the highest rates of disconnection being visited upon the most disadvantaged parts of the state.

These findings are significant in that they challenge the claim that privatisation benefits all citizens, including those living on low incomes. Before the implications of these findings can be identified, it is necessary to explore the possible causes of these trends so that the contribution of the privatisation process can be isolated from external factors such as the state of the economy. The next chapter investigates the potential contributing factors and concludes that the privatisation process made a major contribution to the trends in disconnections in the electricity industry identified in this study.

⁵ Averaged over six years, electricity disconnection rates in Britain have been as low as 0.24 per thousand households (Southern electricity board 1975 - 1981), 0.26 per thousand households (South Eastern electricity board 1975 - 1981) and 0.30 per thousand households (South Western electricity board 1975 - 1981) (Berthoud 1981).

CHAPTER 4: UNDERSTANDING THE INCREASE IN DISCONNECTIONS

The previous chapter documented an alarming increase in domestic electricity disconnections in Victoria over the period of privatisation of the industry. Further, it demonstrated that the increase was not attributable simply to increases in the population of domestic electricity customers. Thus, other factors took effect in the late 1980s and early 1990s and caused a much higher percentage of electricity customers to be cut off from supply of essential power. It is the contention of this paper that the major cause of the increase in domestic electricity disconnections in Victoria in the early 1990s was the process of privatisation, during which tariffs were restructured to make the SECV more profitable and debt collection practices were tightened to increase economic efficiency.

The electricity industry and government can defend themselves against accusations of deliberate harshness toward low income consumers by pointing to factors beyond their control that may have contributed to an increase in disconnections, in particular, general economic trends that cause an increased number of households to experience financial difficulty. This chapter compares economic trends with the trends in electricity disconnections and reveals that, while increasing unemployment may have contributed to increased electricity disconnections in 1991/92, there is no evidence that it caused the dramatic increase in 1993/94.

An examination of available evidence of the changes that occurred at this time that were in the control of the government and the SECV - changes to electricity tariffs and policy of disconnection for non-payment of bills - demonstrates that a primary cause of the increase in electricity disconnections in the early 1990s was deliberate changes within the SECV. The chapter then explores the question of why the SECV introduced changes to its practices that clearly disadvantaged low income customers at a time of high unemployment, and reveals a strong correlation between the timing of these changes and the timing of Federal and State Government policy statements which heralded the commercialisation and corporatisation of utilities. It seems that the process of privatisation - in particular the introduction of commercial principles to utilities in preparation for sale to private owners - was the major cause of increased disconnection from electricity for low income Victorians.

Factors outside the control of the Victorian Government and the SECV: The state of the economy

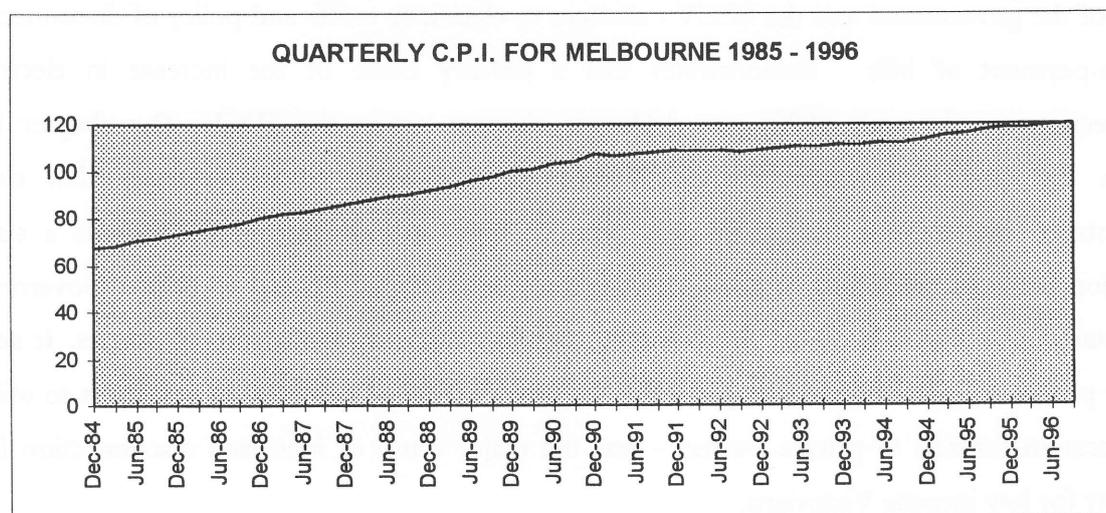
Two key indicators that can reveal whether there is a link between general economic trends and the rates of domestic electricity disconnection are the cost of living and unemployment rates.

Cost of Living

When the cost of living increases, households must prioritise spending and sometimes households managing on low incomes are forced to neglect utility bills in favour of food and rent. Thus, if there had been a dramatic increase in the Consumer Price Index (CPI) over the period 1991 to 1994, this would have contributed to increased rates of disconnection without any tightening of SECV policy. However, the examination of changes in the CPI for Melbourne for the period in question suggests that general affordability was not a contributing factor to the increase in disconnections from electricity.

There was a steady increase in CPI from 1984 to the end of 1990, then a slight slowing of the increase in the cost of living from 1991 to late 1995 (see figure 11). So, especially for the period of rapid increase in electricity disconnections - 1991 to 1994 - there is no apparent connection between changes in the cost of living and trends in electricity disconnections.

Figure 11:



Source: ABS *Australian Economic Indicators February 1995* Table 11.8 Consumer Price Index: All Groups

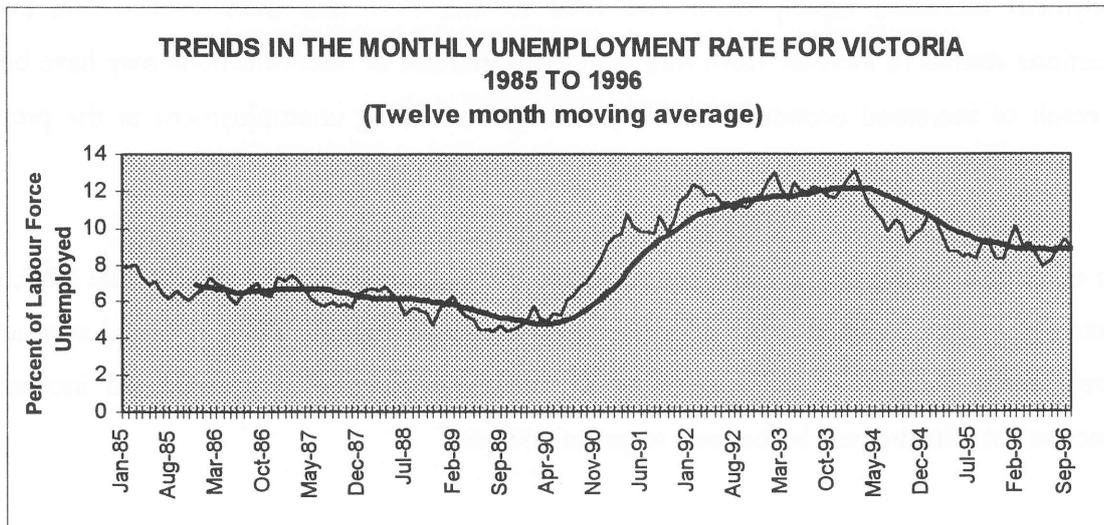
Unemployment

When people lose their jobs, the capacity of their households to pay bills dramatically decreases. Again, households on limited incomes must prioritise and sometimes utility bills are neglected in favour of food and rent. Thus, an increase in unemployment would contribute to increased disconnection rates regardless of SECV policy.

The graph of monthly unemployment rates in Victoria suggests some link between unemployment and electricity disconnection rates (see figure 12). The unemployment rate for Victoria was consistently high over the period under review and increased dramatically in the early 1990s when electricity disconnections also increased. For comparison purposes, the disconnection trendline is reproduced below (see figure 13).

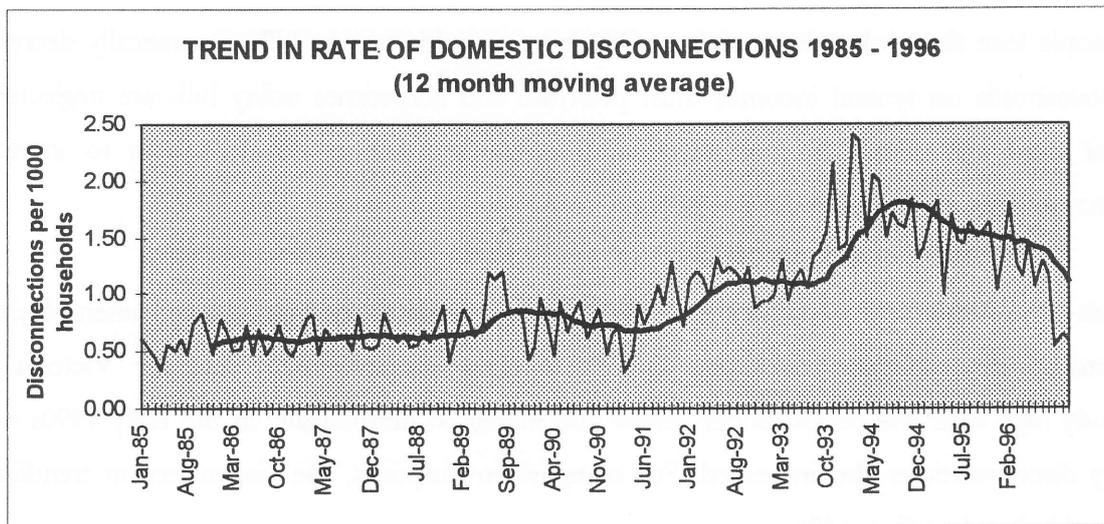
A close comparison of the disconnection trends and the trend in monthly unemployment rates, however, reveals inconsistent results. While there is some similarity between the trends, there are also some significant differences that suggest only a partial link between the two. While unemployment may have contributed to increased disconnections in 1991 to 1992, it does not appear to have been a factor in the increase in disconnections that occurred in 1993 to 1994.

Figure 12:



Source: ABS *Monthly Summary of Statistics, Victoria* Cat. 1303.2 various dates, AGPS Canberra

Figure 13:



Source: See Appendix III

The unemployment rate in Victoria declined from 1985 to 1989 and there was no associated decline in disconnection rates in this period. In fact, there was a temporary increase in disconnections towards the end of this period, in the winter of 1989 when unemployment was at a historical low point. This demonstrates that changes in unemployment do not necessarily contribute directly to changes in domestic electricity disconnections.

Unemployment increased rapidly from mid 1990 to mid 1991 and then levelled out, just as disconnections started to increase from mid 1991. This increase in disconnections may have been a delayed result of increased economic hardship arising from rising unemployment in the previous year.

The rate of both unemployment and disconnections levelled out from mid 1992 to late 1993, after which unemployment declined while disconnections increased rapidly. Thus, it would appear that there were other factors at work resulting in the on-going and unprecedented increase in disconnection rates in the year before sale to private owners.

The next section examines changes that occurred at this time that were within the control of the government and the SECV and which are clearly related to the process of privatisation.

Factors within the control of the Victorian Government and the SECV

Increases in Electricity Tariffs

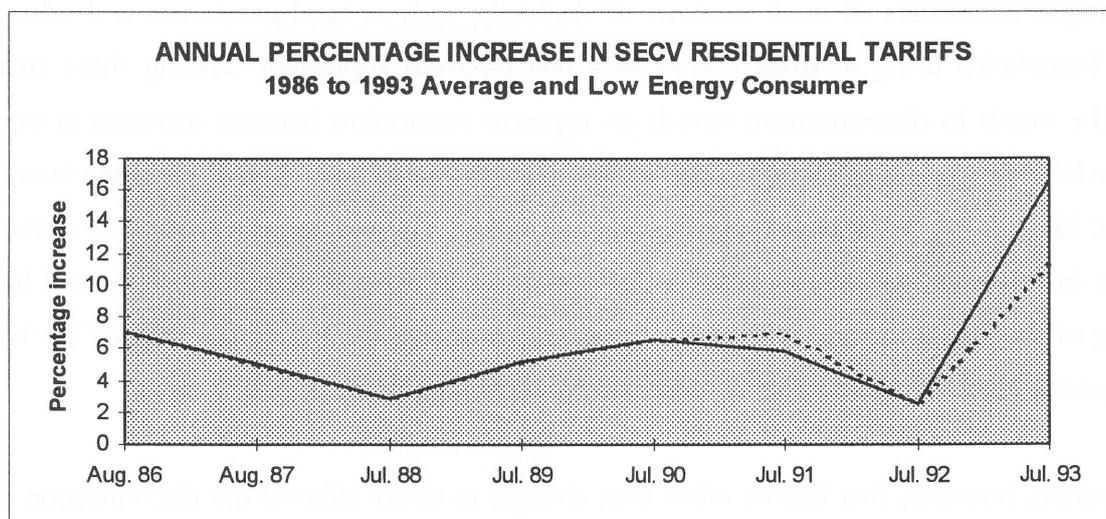
During the period under review, the tariffs charged by the SECV for provision of electricity to residential customers changed in both size and structure. The change that impacted most dramatically on low income households was the doubling of the supply charge by the Coalition Government shortly after it was first elected. In addition, each year from 1985 to 1990, there was an increase in the rate charged for electricity consumed. In 1991, the Victorian ALP Government restructured the residential tariff to include a fixed access charge for all residential customers plus a rate for electricity consumed. This change advantaged large consumers of electricity such as large families and wealthy households living in large homes with many electrical appliances. It also disadvantaged consumers of small amounts of electricity, such as aged pensioners and other low income households living in small homes with few electrical appliances. Tracing these changes against the trends in disconnections reveals an apparent connection between increases in average domestic bills and periods of rapid increase in residential disconnections. The 7% increase in average domestic bills in July 1991 came only one month before the start of the three year period of increases in residential disconnections. The 11% increase in average domestic bills caused by the doubling of the access charge in July 1993 came just three months before the start of the twelve month period in which the increase in domestic disconnections was particularly rapid.

It is apparent, however, that factors other than changes in tariffs affected the disconnection rates. The 7% increase in average domestic bills in 1991 was matched twice before, in 1986 and in 1990. In both of these years, the rate of residential disconnections was unaffected by this tariff increase. This suggests that the increase in disconnections in 1991 was caused by a combination of factors, of which increased tariffs was only one influence. The 1991 increase of 7% came after a year of rapidly increasing unemployment in Victoria. It may be that the combination of these factors caused a dramatic increase in the number of households facing difficulty in paying their utility bills. When the 11% increase in average domestic bills was introduced in 1993, the rate of unemployment was still increasing, although at a slower rate than in 1991. Unemployment was still high and the combination of a steep increase in tariffs with the cumulative effects of three years of high unemployment is likely to have caused an increase in the number of households experiencing difficulty in paying bills. For aged pensioners living frugally in one or two person households with low energy consumption,

the 16% increase in the average bill would have been devastating. So, it would appear that the Government's policy decision to increase tariffs made a significant contribution to the increase in disconnections in the early 1990s.

The annual percentage increase in the bill for the average domestic consumer as well as for the low energy consumer are shown in figure 14 below⁶. Despite the changes to tariffs described here, the overall impact on the average domestic bill was not significant until the access charge was doubled in 1993, causing an 11% increase in the average domestic bill and a 16% increase in the bill of low energy consumers such as aged pensioners. Thus, through its particular impact on low income consumers, this change to tariffs could clearly have contributed to the rapid increase in domestic disconnections in 1993/94.

Figure 14:



Legend: Average household ——— Low energy use household - - - - -

Source: See Appendix V

Given that the Victorian Coalition Government was elected with a stated policy of privatisation of the SECV, it appears reasonable to assume that changes to the access charge were part of the process of privatisation, designed to increase the SECV's income and to make it more attractive to potential purchasers.

⁶ The average domestic bill was calculated on the assumption of 1200 kWh average domestic electricity consumption per quarter and the low energy consumer on 800 kWh per quarter. See appendix 5 for details.

While the Government was acting to increase the profitability of the SECV by increasing tariffs, there were further changes occurring within the SECV to increase its economic efficiency, including changes in both the policy and practices with regard to disconnection for non-payment of bills.

SECV Disconnection Policy

The attitude of the SECV to ensuring supply to households in financial difficulty changed dramatically during the period under review. There was a period in the second half of the 1980s when the SECV had a policy of minimising disconnections, consistent with the Victorian Government's Social Justice Strategy (1987). The annual reports for this period show that this commitment to reduce disconnections disappeared in the late 1980s shortly before the first substantial increase in disconnections. Further, there is evidence to suggest that in 1993, shortly before the second sharp increase in disconnections, the SECV adopted a policy of reduced flexibility with regard to assistance for customers experiencing difficulty paying their bills.

The 1984/85 annual report of the SECV includes a record of the rate of disconnections for the previous year (see Table 2 below). There is no indication given, however, of the attitude of the SECV to these figures.

TABLE 2: Changes in SECV performance measures regarding disconnections 1984 to 1990

YEAR	TARGET Total disconnections per thousand households	ACTUAL Total disconnections per thousand households	TARGET Temporary disconnections per thousand households	ACTUAL Temporary disconnections per thousand households
1984/85	None specified	6.25	None specified	2.89
1985/86	None specified*	7.71	None specified*	4.05
1986/87	Under 3.5 *	7.3	None specified*	3.4
1987/88	Under 7.0	7.5	Under 3.5	3.8
1988/89	Under 6.8	8.6	Under 3.4	4.5
1989/90	None specified	No figures supplied	None specified	No figures supplied

* In these years, the Annual Reports also included a qualitative target regarding establishing policies and procedures to eliminate disconnection due to financial hardship.

Source: SECV annual reports

The next annual report shows that the organisation had adopted a commitment to eliminating disconnection due to inability to pay. The performance measures for the SECV in the 1985/86 annual report included a qualitative target:

Development with government of an approach to eliminate the need for disconnections due to financial hardship.

(SECV 1986:46)

In this report, the SECV set no target for an acceptable number of disconnections, but the figures for the following year showed a slight decrease in both the rate of total disconnections and the rate of temporary disconnections. In 1986/87, the SECV raised the stakes in the challenge set for itself. The qualitative target was firmed up, committing the organisation to:

Finalise, with government, policies and procedures to eliminate the need for disconnection due to financial hardship.

(SECV 1987:48)

For the first time too, a quantitative target was set, establishing the maximum rate of disconnection at 3.5 per thousand⁷. This was an ambitious target, being less than half of the rate of disconnection in the previous year. Not surprisingly then, the SECV was unsuccessful in achieving it. Further, the annual report for the following year showed a slight increase in the rate of disconnections, both total and temporary.

The target set in the 1987/88 annual report was more realistic, being only slightly less than the disconnection rates of the previous two years but higher than that of three years earlier. For the first time, a specific target was also set for temporary disconnections. However, the results reported in the 1988/89 annual report were even more disappointing than the previous year, with significant increases in the rates of both total disconnections and temporary disconnections.

During 1989/90, there was a significant change of attitude to eliminating disconnection due to financial hardship. The 1989/90 annual report (as well as all subsequent annual reports) provided no information about rates of disconnection. Nor, like all others since, did it set performance measures related to disconnections. In its place, the SECV adopted performance measures related to quality of service, such as limiting time off supply due to system failures. This suggests that the SECV no longer regarded access to service as a key measure of success. Thus, the interests of middle class customers, who are likely to be confident of their ability to purchase access to supply, superseded

⁷ Note that these figures are annual totals and include commercial as well as domestic customers. Therefore, they are not directly comparable with the monthly domestic disconnection figures used elsewhere in this paper.

the interests of customers on low incomes who are more likely to tolerate the inconvenience of interrupted supply if they are assured of on-going access to essential power supply regardless of their tenuous financial situation.

SECV Debt Collection Practices

There is little information publicly available on the internal policies and practices of the SECV regarding disconnection for non-payment of bills. In early 1993, however, a report was published by consultants commissioned by the SECV to advise on improvements to its credit management practices (SECV 1993). This report concluded that it was unacceptable to continue the flexible procedures of negotiating extensions to payment dates and reconnecting supply without payment of past debt. It recommended centralised control of credit management practices, a reduction in the payment period from three to two weeks and a shortened collection cycle for customers who had missed the due date in the past. This last initiative eliminated the reminder notice for customers classified as 'unsatisfactory' and granted them nine fewer days to pay before disconnection.

While there was no public announcement in the mainstream media regarding the recommendations of this report, statements made during this period suggest that the recommendations were consistent with the policy directions at the time. The responsible Minister responded to the historically high disconnection figures by stating that the SECV was required 'to operate on business lines' (*Age* 22.5.93:5) and the General Manager of the SECV stated that changes were occurring in the interests of competition (*Age* 13.7.93:3 and 17.7.93:5). So, households in financial difficulty found themselves dealing with a less flexible service provider. Within four months of the publication of the consultants' report, the rate of domestic disconnections started its most rapid increase.

Trends in financial counselling casework

Further evidence to support the contention that the SECV adopted this harsher approach to dealing with customers in financial difficulty is provided by trends in financial counselling casework over the year following the consultants' report. A spot survey of financial counselling services in Victoria published in June 1994 (Benvenuti 1994) revealed a 50% increase in utility-related cases in the year following publication of the consultant's report. Nearly half of the utility problems presented by clients to financial counsellors in this period related to the SECV and over half of the clients had not been offered any alternative arrangement by the utility to prevent disconnection. In

many cases, the intervention of the financial counsellor resulted in negotiation of a payment arrangement and avoidance of disconnection. In the past, the SECV would have made these arrangements directly with the customer without the intervention of a financial counsellor.

This analysis of the available information suggests that the willingness of the SECV to make special arrangements to ensure continuity of access to supply for households in financial difficulty declined in the late 1980s and early 1990s, and a policy of harsh treatment was formalised in 1993. In summary, shortly after the election of the Coalition Government with its clear commitment to privatisation of the SECV, policies and practices were introduced which contributed to significant increases in domestic disconnections.

Government policy changes: commercialisation, corporatisation and regulation

When unemployment has been high for three years and domestic disconnections are at their highest point in at least eight years, it would seem reasonable to expect government to avoid any increase in utility tariffs that would cause particular hardship to low income households. In 1993, however, the Victorian Government did the exact opposite. At the same time, the SECV adopted credit management practices that disadvantaged households in financial difficulty. The analysis below suggests that this occurred because the government had made a clear decision that the SECV was to place a higher priority on economic efficiency than on social goals such as minimising disconnections related to incapacity to pay. This is clearly demonstrated by a longitudinal examination of the relationship between government policy and trends in electricity disconnections in the 1980s and 1990s.

In the second half of the 1980s, when Victorian Government policy emphasised public accountability for utilities⁸, disconnections were steady. In the late 1980s, the first indications emerged of a change in federal government policy that favoured economic efficiency over achievement of social goals. The Federal Industry Assistance Commission of Inquiry into Government Non Tax Charges was published⁹ and domestic disconnections increased temporarily.

⁸ See chapter 2 for details.

⁹ It is likely that the process of the Federal Industry Assistance Commission of Inquiry into Government Non Tax Charges, which was published in September 1989, caused a realignment of policy within the SECV towards concern for profitability and away from the provision of a public service. This review specifically mentioned rebates to pensioners and others on low incomes as part of the 'unfavourable operating environment' of publicly-owned utilities compared

In the early 1990s, when ALP governments at both federal and Victorian levels adopted policies of commercialisation of utilities, emphasising economic performance and marginalising social goals¹⁰, SECV disconnections started to climb. In 1993, under a Victorian Coalition Government with a clear commitment to privatisation of the electricity industry, domestic disconnections skyrocketed, almost doubling in twelve months. The trend reversed only when the Victorian Coalition Government specifically stated that the performance of the utilities should stay the same or improve, and appointed the Regulator General to ensure that this occurred.

In July 1994, the Office of the Regulator General opened for business and in September of that year, the Government issued a policy statement requiring the Regulator General to ensure that the performance of the new electricity distribution businesses was equal or better than the SECV's performance as at 24 September 1994 in regard to a range of indicators including disconnections (ORG 1995b: 40). Obediently, the distribution businesses started to decrease disconnections the following month. Thus, it seems that the decline in domestic disconnections since 1994 is due more to increased regulation than to the effects of market forces.

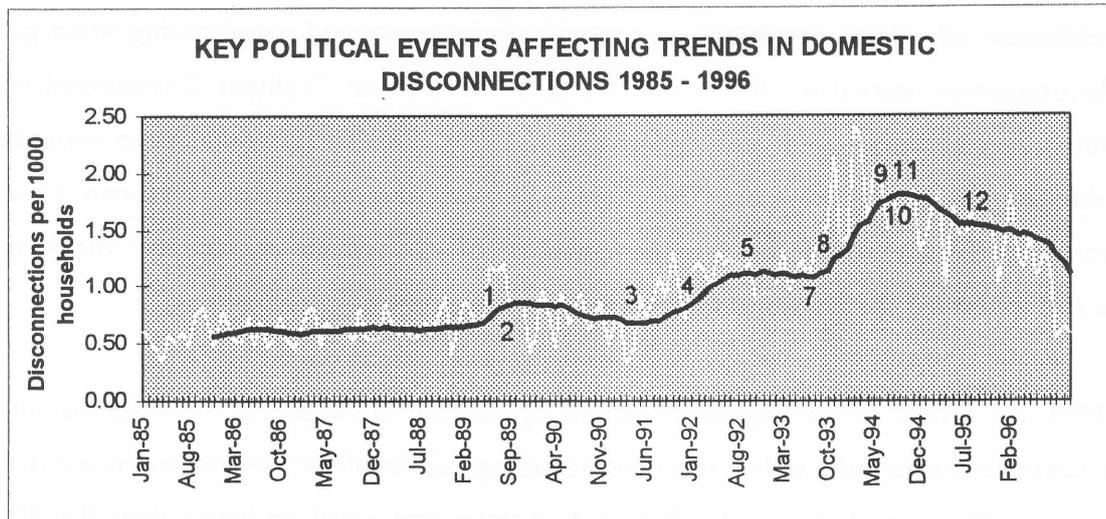
The key events in the development of Federal and State Government policy to privatise utilities are plotted against changes in electricity disconnections in Victoria in figure 15 below. This chronology of political events affecting the electricity industry in the late 1980s and early 1990s clearly suggests that the processes of privatisation, including commercialisation and corporatisation were a major cause of the dramatic increase in domestic disconnections.

with private industry and placed against this a potential 1.1% decrease in income tax as one of the economic benefits of increasing competition in the industry. This sent a clear message to the utilities throughout Australia that concern for people in financial difficulty was undesirable.

The data compiled in the current study shows that the increased annual rate of disconnection reported in the 1988/89 annual report was contributed to by a short-lived increase in domestic disconnections in the winter of 1989, where the rate for both temporary disconnections and skippers doubled for three months. Plotting the trendline for the rate of temporary disconnections per thousand households - figure 9 above - shows that this change was sufficiently brief to not affect the historical trend. There was a two year gap between the IAC Inquiry and the spate of State and Federal inquiries into the operations of the electricity industry which ultimately led to full privatisation. In this hiatus, disconnection rates dropped again to the rate of SECV best practice. This coincidence of events suggests strongly that increases in disconnections are contributed to significantly by deliberate changes in practice by the SECV inspired by shifts in government policy.

¹⁰ See chronology of key events affecting electricity industry in Appendix IV; also summary of government reports in Chapter 2

Figure 15:



- 1: July 1989 SECV stops setting targets re maximum no. of disconnections
- 2: Sept. 1989 First government report published calling for competition in public utilities
- 3: May 1991 Start of six month period in which five government reports are published calling for competition, corporatisation and/or sale of public utilities
- 4: Feb 1992 SECV stops publishing disconnection data
- 5: Oct 1992 Kennett Government elected
- 6: May 1993 Consultants report recommends tightening of SECV credit management
- 7: July 1993 Increase in electricity supply charge
- 8: Oct 1993 SECV broken up vertically into three businesses
- 9: July 1994 Office of the Regulator General opens
- 10: Sept 1994 Government declares performance of SECV on this date as benchmark for monitoring performance of private distribution businesses
- 11: Oct 1994 Electricity distribution broken up horizontally into five businesses
- 12: Aug 1995 Sale of electricity distribution businesses starts

Given this disturbing trend in the electricity industry, the citizens of Victoria have good reason to be concerned at the likely social impact of the Victorian Government's privatisation processes in both the gas and water industries. The next chapter explores the full implications of the findings of this study and identifies areas for action to minimise the social harm arising from the privatisation of utilities.

CHAPTER 5: POLICY IMPLICATIONS

The previous chapter examined the complex array of political and economic factors that have contributed to the increase in electricity disconnections in Victoria over the last twelve years. It concluded that, while increased unemployment contributed to the number of households being cut off from essential electricity supply in the early 1990s, the process of commercialisation, corporatisation and sale of electricity to private owners was a major contributing factor, especially from 1993.

These findings have significant implications for the people of Victoria, as customers of the private electricity companies, as 'shareholders' in the utilities that are yet to be sold to private owners and as citizens in an increasingly commercialised society. This chapter explores these implications and identifies areas for action in response.

Implications for electricity customers

In regard to the electricity industry, the findings of this research have implications for consumers as well as for the Regulator General and the government. This research has revealed the need for an expansion of the role of the Regulator General in the oversight of the social impact of privatisation to ensure that all Victorians are treated fairly, including those people who are in receipt of low incomes. Service standards must be developed that meet the needs of low income consumers, particularly in regard to access to supply and appropriate and responsive debt collection practices such as flexible payment schemes and deferment or waiver of debt.

The citizens of Victoria have the right to demand further decreases in domestic electricity disconnections. Despite government claims to the contrary, there is no cause to be grateful to the private electricity companies for the decreases that have occurred to date. In reducing average monthly disconnections, they are doing no more than returning to the service levels of the best practice of the SECV. Further, it appears that this decrease is only occurring as a result of continuing pressure from the Regulator General.

As the agent of government with responsibility for ensuring that customers benefit from privatisation of utilities, the Regulator General should adopt a target of an average of 0.35

households disconnected per month per thousand domestic customers as the benchmark for evaluating the performance of the private electricity distribution businesses. This target was set by the SECV in 1986/7, and if met by private electricity distribution businesses, may begin to substantiate claims that privatisation can achieve what public ownership cannot. This target would place appropriate pressure on Citipower to reduce immediately its rate of domestic disconnection. Further, the Regulator General should publish detailed monthly disconnection figures in order to monitor whether the performance of the distribution businesses remains below this level.

Government must identify specific community service obligations for corporatised and private utilities that ensure maintenance of supply to all citizens regardless of economic disadvantage. In this way, the government can ensure that while the utilities operate in an economically efficient manner, vulnerable citizens are not denied access to essential services. These community service obligations must be adequately funded to ensure that no Victorian is denied access to utilities through inability to pay and the only households to be disconnected would be those that deliberately withhold payment. The possibility of requiring private electricity distribution businesses to contribute financially to community service obligation funds must not be overlooked. An interesting model, perhaps worthy of emulation, is the windfall levy imposed on privately owned utilities by the Blair government in Britain.

Implications for privatisation of other utilities

This research has implications for the Regulator General, the Victorian government and for consumer advocates in regard to the current privatisation of gas and the possible future privatisation of water. If the Regulator General is to pursue genuinely the role of ensuring that service standards do not decline below those of the publicly owned utilities, then he must actively seek historical data regarding gas disconnections and water restrictions in order to identify a benchmark of best practice of the public utilities against which to monitor the performance of corporatised government businesses or private companies. In this way, the public can be protected from misleading information that obscures the negative impact of corporatisation and commercialisation of public utilities on vulnerable citizens.

It is crucial that the Regulator assumes responsibility for monitoring and regulation of the utilities well before they are offered for sale to profit-oriented owners. In this way, he can ensure that the

utilities are genuinely operating in a manner which is fair and equitable to all citizens before the pursuit of profit comes to dominate decision-making.

Consumer advocates must be vigilant in monitoring the impact of the entire process of privatisation, including the preparation phases of commercialisation and corporatisation as well as after sale. In this way, they will avoid accepting a level of worst practice of public utilities as the benchmark for assessing the performance of private utilities.

Implications for broader debates about the relationship between the state and the market

As the influence of economic rationalism sweeps through Australian society and fundamentally changes the relationship between the state and the market, it is important to ensure that the impact of the shift of provision of essential services from the state to the market is monitored and assessed against the stated aims of the proponents of these changes. This study demonstrates the importance of ensuring that any assessment of the impact of privatisation recognises the various forms that privatisation takes and examines the impact of commercialisation and corporatisation of public services as well as the impact of sale to private owners.

As this study has vividly demonstrated, an examination of privatisation that is limited to the impact of sale of public assets can result in an inaccurate representation of positive outcomes. An examination of the full process, however, can reveal a significant negative impact for vulnerable citizens.

Further, this study demonstrates the central importance of the question of what form government regulation should take in times of a shift from state provision to market provision. Where the Victorian Government has adopted an approach of 'light handed' regulation, it is apparent that this leaves significant social issues unaddressed.

The research documented in this paper presents a serious challenge to those who claim that the introduction of commercial principles to public services will automatically benefit all citizens. The findings of this research confirm the fears that privatisation increases social divisions by bringing

benefits to those who already have a disproportionate share of society's resources while inflicting punishments on disadvantaged citizens who are least able to exercise market power.

It is also important that the impact of privatisation is measured against broader criteria than those proposed by its supporters. The shift from state to market provision of essential services must be judged against its impact on democracy itself. This study supports the ever increasing calls for another fundamental shift in thinking about utility services, one based on the notion of social citizenship rather than consumerism (Ernst and Webber 1996:138-140) which includes collective rights and responsibilities as well as those of individuals, public ownership combined with active, independent public regulation and an emphasis on social and environmental performance targets as well as economic targets.

Without equality of access to essential services, Victorians cannot fulfil their obligations as citizens.

'[The idea of c]itizenship ...raise[s] questions of social and political rights. Modern democracy rests on the claim that all people can be citizens - that each person can participate in civic life and, potentially, in decision making. Yet modern democracies too frequently fail to deliver these promises or to facilitate these capacities; poverty and inequality prevent people from participating, keeping their eyes on the ground, keeping them concerned with providing food and shelter for themselves and their families.'

(Beilharz, Considine and Watts 1992: 2)

As privatisation forces more and more people to struggle just to keep the lights on, it weakens our capacity to function as a vigorous democratic society.

APPENDIX I

Table 3: Sources of data on electricity disconnection rates

REF NO.	SOURCE	LOCATION	DATA	PERIOD
1	<i>State Electricity Commission Annual Report 1992-1993</i> Appendix 3 p.136	Department of Agriculture Energy and Minerals library	Number of SECV domestic customers	as at 30 June in each year from 1985 to 1994
2	Office of the Regulator General <i>Electricity Customer Service Indicators November 1994 to July 1995</i> Oct. 1995, Table 1, p. 6	Office of the Regulator General (ORG)	Number of domestic customers by Distribution Business (DB)	as at 30.6.1994
3	<i>Board Summary - A summary of minutes of SEC Board meeting 15.8.85</i>	Urban and Social Policy Collection, Victoria University of Technology library, St. Albans Campus	<ul style="list-style-type: none"> • SECV monthly domestic disconnections for non-payment • SECV monthly domestic reconnections in the same name 	Jan. - Jul. 1985
4	<i>Board Summary - 17.10.85</i>	as above	as above	Aug. - Sep. 1985
5	<i>Disconnection for Non-Payment to January 1987</i> Monthly report of the SECV to Domestic Energy Consumers Consultative Committee (DECCC)	as above	as above	Nov. 1985 – Jan. 1987
6	<i>Board Summary - 17.7.87</i>	as above	as above	Apr. 1986 – Jun. 1987
7	<i>Board Summary - 16.6.88</i>	as above	as above	Jul. 1987 – May 1988
8	<i>Disconnection for Non-Payment to July 1989</i> Monthly SECV report to DECCC	as above	as above	Jun. 1988 – Jul. 1989
9	<i>SECV Disconnection for Non-Payment of Accounts - Domestic Customers</i> Customer Procedures Section, Energy Services Department	as above	as above	Jul. 1989
10	<i>Disconnection for Non-Payment to August 1990</i> Monthly SECV report to DECCC	as above	as above	Aug. 1989 – Aug. 1990
11	<i>Disconnection for Non-Payment to December 1990</i> Monthly SECV report to DECCC	as above	as above	Sep. - Dec. 1990
12	<i>Disconnection for Non-Payment to February 1992</i> Monthly SECV report to DECCC	as above	as above	Jan. - Jul. 1991
13	Letter of 17.5.93 from Graeme Searle, Manager, Customer Procedures, SECV to Gavin Dufty, Energy Action Group	as above	as above	May 1991 – Apr. 1993

14	Letter of 8.7.94 from R. A. Brown, Officer Responsible for FOI, SECV to Gavin Dufty, Policy Officer, VCOSS	Victorian Council for Social Service (VCOSS)	as above	Apr. 1993 – Apr. 1994
15	Letter of 19.10.94 from Eastern Energy to VCOSS	as above	as above	May - Aug. 1994
16	ORG <i>Electricity Customer Service Indicators - Disconnections July to December 1995</i> Feb. 1996, Table 3, p. 7	ORG	<ul style="list-style-type: none"> • Monthly domestic disconnections by DB • Monthly domestic reconnections by DB 	Jul. - Dec. 1994 and Jul. - Dec. 1995
17	ORG <i>Electricity Customer Service Indicators - Disconnections January to March 1996</i> June 1996, Table 3, p. 10	as above	as above	Jan. - Mar. 1995 and Jan. - Mar. 1996
18	ORG <i>Electricity Customer Service Indicators - Disconnections April to June 1996</i> Aug. 1996, Table 3, p. 8	as above	as above	Apr. – Jun. 1995 and Apr. – Jun. 1996
19	ORG confidential briefing paper <i>Customer Consultative Committee Agenda Item No.10, Electricity Distribution Businesses, Disconnections for Non-Payment July - September 1996</i> Jan. 1997	as above	as above	Jul. – Sep. 1995 and Jul. -Sep. 1996
20	ORG <i>Customer Consultative Committee Agenda Item no.9 Electricity Distribution Businesses Disconnections for Non-Payment of Debt Oct-Dec 1996</i> Feb. 1997	as above	as above	Oct - Dec 1995 and Oct - Dec 1996
21	ORG <i>Customer Consultative Committee Draft Agenda Item 11 Electricity Performance Reports - June 1997 Performance Report, Jan-Mar 1997 Disconnection Report</i>	as above	as above	Jan - Mar 1996 and Jan - Mar 1997
22	ORG <i>Distribution Businesses Performance Jan - Dec 1997 Disconnections for Non-Payment</i>	as above	<ul style="list-style-type: none"> • Total annual domestic disconnections by distribution business • Percentage of customers • Total annual reconnections by distribution business 	1995 1996 1997

DB = Electricity Distribution Business SEC = State Electricity Commission
 ORG = Office of the Regulator General SECV = State Electricity Commission of Victoria
 FOI = Freedom of Information VCOSS = Victorian Council of Social Service
 DECCC = Domestic Energy Consumers Consultative Committee

Copies of primary sources are available on request from the Financial and Consumer Rights Council.
 (See also Appendix III)

APPENDIX II

Table 4: Population of domestic electricity customers, Victoria 1985 to 1996

YEAR	NUMBER OF DOMESTIC CUSTOMERS AS AT 30 JUNE
1984	1191600
1985	1220100
1986	1251800
1987	1278700
1988	1305700
1989	1335600
1990	1365500
1991	1387900
1992	1409900
1993	1430600
1994	1451300
1995	1735578
1996	1761990

Sources:

- 1985 to 1993 - SECV Annual Reports - various years
- 1994 - ORG (1995b) - total residential customers of five distribution businesses plus some MEUs
- 1995, 1996 - See Appendix III - estimated from ORG data re rates of disconnection per thousand customers

APPENDIX III

DATA BASE OF DISCONNECTION DATA 1985 TO 1996

A disk, for examination and manipulation on **Microsoft Excel spreadsheet software version 5.0**, is available for order from the Financial and Consumer Rights Council.

Please complete the form below, enclose a cheque and send to:

Financial and Consumer Rights Council
2nd Floor
Reid House
347 Flinders Lane
Melbourne 3000

For further information, please contact us by telephone (03) 9614 5433, facsimile (03) 9614 8433 or e-mail fcrc@vicnet.net.au



I would like...

TOTAL COST

IBM compatible disk Cost \$10 per copy including post and handling \$

Please also send me copies of primary sources of data on electricity disconnection rates,
.....(list required numbers from 1 -22)

at 25 cents per source for copying plus \$6 post and handling. \$

TOTAL \$

I enclose a cheque for _____
(Please make cheque payable to Financial and Consumer Rights Council Inc.)

NAME _____

ADDRESS _____

TELEPHONE (for confirmation) _____

APPENDIX IV

Table 5: Chronology of key events affecting provision of electricity services in Victoria 1982 to 1997

DATE	GOVERNMENT INITIATIVES	INDUSTRY INITIATIVES	COMMUNITY INITIATIVES	ECONOMIC TRENDS	DISCONN. TRENDS
1982 - April	Vic. Labour Govt elected on platform of increased accountability for SECV				Monthly figures not available
1983 - Mar -May	Fed. Labour Govt elected		EAG publishes report on fuel poverty in Vic. calling for no disconnection for inability to pay		Monthly figures not available
1984		SECV starts to publish information re cross subsidies between commercial and residential customers			Monthly figures not available
1985		SECV Board starts publishing monthly disconnection figures			Average monthly disconnections = 900 households
1986 - Jul - Aug		SECV annual report sets performance measure re no disconnection for financial hardship 7% increase in average domestic bill			No change
1987 - Jul		SECV annual report sets target of max. rate of disconnections			No change
1988 - Jul		SECV annual report sets target of max. rate of total and temporary disconnections			No change

<p>1989 - Jun to Aug - Jul - Sept</p>	<p>IAC report on government non-tax charges calls for competition and separation of CSOs</p>	<p>SECV annual report sets target of max. rate of disconnection for last time</p>			<p>Dramatic increase in disconnections for 3 months Returns to level of best practice</p>
<p>1990 - Jun - Jul</p>		<p>7% increase in average domestic bill</p>		<p>Start of 2 years of rapid increase in unemployment in Vic.</p>	<p>No change</p>
<p>1991 - May - Jun - Jul - Aug - Oct - Nov - Dec</p>	<p>IC report on electricity generation and distribution calls for privatisation Vic. Government statement of commitment to corporatisation Special Premiers Conf. agrees to national electricity grid Vic. PBRC paper on corporatisation Vic. EBRC report recommends separate CSOs and fund directly IC report on greenhouse gas emissions recommends privatisation to reach environmental goals Vic. Govt policy paper on corporatisation of GBEs proposes Victorian model</p>	<p>Access charge introduced; 7% increase in average domestic bill</p>		<p>Continuing increase in unemployment in Vic.</p>	<p>Start of 3 years of increasing disconnections</p>

1992		Establishment of national electricity grid Reporting of monthly disconnection figures ceases			
- Feb					
- Apr	SCNPMGTE annual report focusses on economic performance				
- Jun	Vic. ALP Govt report commits to corporat-isation but not sale			End of 2 years of rapid increase in unemployment in Vic.	
- Jul	SCNPMGTE report on measuring productivity of GBEs focusses on economic indicators				Start of temporary slowing of rate of increase in disconnections (to Oct. 93)
- Oct	Election of Vic. Coalition Govt Start of Fed. inquiry into national competition policy				

1993 - Apr	Vic. govt report on financial management strategy identifies electricity industry as priority	Consultants report published recommending tightening of SECV credit management practices			
- May		Access charge doubled; 11% increase in average domestic bill; 16% increase on low energy consumption bills			
- Jul		Vertical disaggregation of SECV			Start of 12 months of rapid increase
- Aug	Hilmer report on national competition policy extends competition to utilities				
- Oct	Electricity Industry Act proclaimed OSOE publishes report on electricity supply in Vic.				
1994 - Feb	OSOE report on stage 2 of electricity industry reforms includes timeline for horizontal disaggregation ORG Act proclaimed				
- Jun			VCOSS/CLCV forum on rights to essential utility services		
- Jul	ORG opens				
- Sept	Vic. Govt sets benchmark for private DBs	Start of series of monthly disconnection figures published by ORG from Oct. 95			
- Oct		Licences issued to 5 distribution businesses	AFCO conference on protection of public interest in competitive environment		End of 3 years of increasing disconnections; start of period of decline
- Dec	OSOE publishes summary of reforms in electricity industry			End of 3 years of increase Start of on-going decline	

1995 - Mar		All customers of MEUs incorporated into distribution businesses	CAFCA publishes report on utility practices VCOSS publishes report on use of emergency relief for utility debts		
- July		Sale of distribution businesses to private owners			
- Aug. to Dec	ORG starts publishing monthly disconnection figures				
- Oct					
1996 - Jan	Federal Coalition Govt elected				Solaris and Eastern Energy disconnection rates drop to level of SECV best practice
- Mar	Vic govt announces intention to sell Gas and Fuel				United Energy disconnection rates drop to level of SECV best practice
- Sept					
- Dec	Vic govt announces timeline for disaggregation of Gas and Fuel	Disaggregation of Gas and Fuel			
1997 - Mar					
- Jul					

APPENDIX V

Table 6: Electricity tariff structure and charges, Victoria 1985 to 1993

YEAR	1st 120 kWh per quarter \$ per kWh	Next 900kWh per quarter \$ per kWh	1st 1020kWh per quarter \$ per kWh	Balance of consumption \$ per kWh	Access Charge \$
Aug 85	0.2001	0.0805		0.0887	
Aug 86	0.2141	0.0861		0.0949	
Aug 87	0.225	0.0905		0.0997	
Jul 88	0.2315	0.0931		0.1026	
Jul 89	0.2435	0.0979		0.1079	
Jul 90	0.2593	0.1043		0.1149	
Jul 91			0.1172	0.123	14.22
Jul 92			0.1201	0.1261	14.58
Jul 93			0.1187	0.125	33.93

Source: SECV Annual Reports, various years

Table 7: Annual changes in average electricity bills for average consumer and for low energy consumer

	TOTAL BILL for 1200 kWh per quarter \$	\$ INCREASE	% INCREASE	TOTAL BILL for 800 kWh per quarter \$	\$ INCREASE	% INCREASE
Aug 85	112.43			78.75		
Aug 86	120.26	7.84	7	84.24	5.49	7
Aug 87	126.40	6.13	5	88.54	4.30	5
Jul 88	130.04	3.64	3	91.09	2.55	3
Jul 89	136.75	6.71	5	95.79	4.70	5
Jul 90	145.67	8.92	7	102.04	6.25	7
Jul 91	155.90	10.24	7	107.98	5.94	6
Jul 92	159.78	3.88	2	110.66	2.68	2
Jul 93	177.50	17.72	11	128.89	18.23	16

Source: Calculated from data in Table 6

Glossary of terms

ALP	Australian Labor Party
CAFCA	Consumer Advocacy and Financial Counselling Association of Victoria
CSO	Community Service Obligation
DECCC	Domestic Energy Consumers Consultative Committee
IAC	Industry Assistance Commission
IC	Industry Commission
MEU	Municipal Electricity Undertaking
ORG	Office of the Regulator General
OSOE	Office of State Owned Enterprises, Department of Treasury
SCNMPGBE	Steering Committee on National Performance Monitoring for Government Business Enterprises
SECV	State Electricity Commission of Victoria

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