

BOOK REVIEW – 2001

A Review of "WARRING TRIBES: THE STORY OF POWER DEVELOPMENT IN AUSTRALIA" by Robert R Booth, Bardak Group, Perth, Australia 2000 ISBN 0-646-38909-1 pp 257

Electricity is a highly political substance. The truth of this proposition is undisputably established by this Australian book. It is a remarkable account of the political and economic intrigue surrounding the radical overhaul in Australia of one of the world's most important industries — the electricity supply industry. It also illustrates the special difficulties faced by federal countries, such as Australia, in implementing economic reform where state or provincial interests are affected.

This is a book not by a politician, government official, economist or lawyer, but by a highly qualified and experienced Australian electricity industry executive, and now consultant, Dr Robert Booth.

The ESI, as it is commonly called, is nothing if not complex. Politicians, bureaucrats, industry leaders, investment bankers, lawyers, economists, accountants, not to mention the man on the street, claim to understand it but most really do not. I remind myself of a comment attributed to a US politician: "If you aren't confused, you don't understand the problem."

There is no doubt that, by the early 1990s, the ESI in Australia, as elsewhere, needed to become more competitive and efficient. This book cogently demonstrates that, in general, politicians do not adequately understand how to administer micro-economic reform to an industry with the special quirks of the ESI.

Faced with complexity, people react in various ways: some go into denial, some seize on issues they think they can grapple with, some go off on crusades, some indulge in diversionary tactics, some stab activists in the back, some start skirmishes on the fringe, and, as this book vividly demonstrates, tribes who are threatened go to war. The tribes Dr Booth writes about in this book are the Australian states and territories. Their rivalrous conduct has resulted,

Booth claims, in Australian ESI reforms which are sub-optimal and short of best international practice.

Few people could write a book on this subject; most lack the requisite knowledge. Those who possess requisite knowledge tend to represent vested interests with something to gain or something to lose from any ensuing changes.

I recall in mid-1994, when the ESI reforms were getting into full swing in the State of Victoria, attending a conference in Melbourne and listening to the State Treasurer outline his government's plans. Booth spoke at the same conference, publicly endorsing the plan to split the ESI into the three distinct functions of generation, transmission and distribution to make it more competitive. He also endorsed the introduction of competition in generation and supply of electricity. But he surprised attendees with an astute critique of the proposed Victorian pooling and network pricing systems as "too experimental, too academic, too unproven and too risky".

As Booth recalls, in the eyes of the State ESI Reform Unit, this made him as popular as a pork chop in a synagogue. Six years on, Booth is now calling for a truly national approach to the ESI to avoid further haphazard responses to ESI reform issues in Australia. To this, as an Australian, I say three cheers!

Booth makes a number of interesting suggestions to rekindle a true national vision for the Australian ESI. Here are some of them:

- ownership of more than one power station by the same generation company should be banned
- in the distribution sector, the retail supply function should be separated from the network function (ring fencing according to Booth is not enough)

2.

- retailers should be made responsible to customers for security of supply (this idea warrants close study although retailers will resist it because they have no direct control over supply, this being the function of the network operators)
- interconnections between the participating Australian states must be strengthened (there is an overwhelming case for this)
- the pooling system used in Australia (based on the original UK model) should be abandoned and replaced by continuous bilateral trading between generators and customers, with a power exchange for trading on variations from contracted positions (in my opinion, there are very strong arguments in favour of this)
- Australia should establish a single national industry regulator (a sensible suggestion indeed)
- the network pricing system should be reviewed so as to further reduce network charges (electricity consumers will love this idea but the purchasers of privatised network assets in Victoria and South Australia will strongly oppose it).

All in all, this is a most arresting country case study on micro-economic reform by a seasoned electricity industry insider. It should be made compulsory reading for all of the sabre-rattlers who pretend to be well informed about ESI issues. The author has made a valuable contribution to the international debate about the highly political nature of ESI reform.

Robert Pritchard

ResourcesLaw International, Sydney
Email: robert.pritchard@resourceslaw.net