

Committee Secretary
Senate Select Committee on Electricity Prices
The Senate, Australian Government
Parliament House, Canberra

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Dear Sir,

The Grattan Institute makes this summary submission to the Senate Select Committee on Electricity Prices. This submission focuses only on the following items in the Committee's terms of reference:

- a. Identification of the key causes of electricity price increases over recent years and those likely in the future;
- b. Legislative and regulatory arrangements and drivers in relation to network transmission and distribution investment decision making and the consequent impacts on electricity bills, and on the long term interests of consumers.

Grattan Institute is currently undertaking a detailed analysis of these two items with specific emphasis on the electricity distribution networks. Our initial hypothesis is that increases in electricity distribution costs over the last several years and pending are higher than they would be under efficient ownership and regulatory arrangements. In our initial review and consultation, we have identified the following key issues as being worthy of rigorous testing as causal factors:

- Government ownership that leads to excessive capital investment and operational inefficiencies, i.e., reduced productivity
- Reliability standards that are higher than the benefits justify
- Inappropriate rates of return for the risks involved in the businesses
- A regulatory decision making and review process that is excessively skewed towards the interests of the businesses rather than consumers

The analytical phase of this research is well underway, and we expect to deliver a public report in mid-November. We are acutely aware that this timetable is inconsistent with the dates for submissions to and report by the Committee. However, it is possible or likely that interim results and our draft report could be of value to the Committee in its deliberations.

The Grattan Institute would be pleased to further elaborate on the above points and to appear before the Committee to assist in its deliberations. We look forward to your advice in that regard.

Yours sincerely

Tony Wood

Program Director, Energy