

States of play

An analysis of interstate competition in Australia's wholesale electricity market reveals NSW's positive financial performance is due more to government privileges than productivity improvements, writes *Gennadi Kazakevitch* and *Sheau Yin Goh*.

The formation of Australia's national electricity market (NEM) in 1998 brought together a whole range of competing generators with different structures, efficiencies and infrastructures. When the dust settled, Victoria and South Australia were privately-owned and NSW and Queensland state-owned.

To establish if there is neutrality in the NEM or if government-owned sectors have an advantage over private ones this study evaluated and compared the performance of private and government-owned electricity sectors across a range of common comparative performance measurement tools including ratios and growth indices. It also examined earnings before interest and tax (EBIT), operating profit before tax (OPBT), return on equity (ROE) and return on assets (ROA).

Specific comparison between Victoria and NSW electricity industries deserves special attention for three important reasons. First, they directly compete in different ownership structures; second, Victoria has Australia's largest privately-owned generation capacity (8892 MW), and NSW has the biggest government-owned capacity (12,809 MW, excluding Snowy Hydro); and, finally, prices in each state are comparable.

The overall results indicate that privatisation in Victoria did not raise profits. In fact Victoria reportedly performed dismally in its EBIT, OPBT and ROA although more economically efficient compared with NSW, Queensland and, to a certain extent, SA. The privatised Victorian industry had positive growth in industry gross product per selected labour cost, elec-

tricity generated per employee, EBIT per employee and sales revenue per employee. It also demonstrated financial efficiency by having the highest EBIT per unit of electricity generated. However, ownership did have a differential impact on levels of government assistance, with NSW and Queensland getting higher government grants and lower interest rates than Victoria thus worsening Victoria's financial performance, already plagued by low wholesale prices and assets bought at inflated prices.

Therefore, it is apparent NSW's positive financial performance is due to government privileges rather than productivity improvements. Similarly, Victoria's comparatively inferior financial performance is more of an ownership-related issue rather than an efficiency-related one.

In view of the findings discussed, a uniform ownership structure across the NEM member states is needed if we are to enjoy a level playing field.

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Economic indicators

% of change (per employee)*

Electricity generated (EG) 46.75%
Earnings before interest and tax (EBIT) 56.80%
Sales revenue (SR) 133.06%

Financial indicators of the generation sector, % of change*

Return on equity (ROE) -24.61%
Return on asset (ROA) 100%
Earnings before interest and tax (EBIT) 49.96%

Economic

EG 47.05%
EBIT 1024.9%
SR 419.46%

Financial

ROE 117.65%
ROA -116.67%
EBIT 440.23%

Economic

EG 95.29%
EBIT 184.53%
SR 145.7%

Financial

ROE -16.22%
ROA 253.85%
EBIT 38.64%

Economic

EG 142.18%
EBIT 284.05%
SR 565.98%

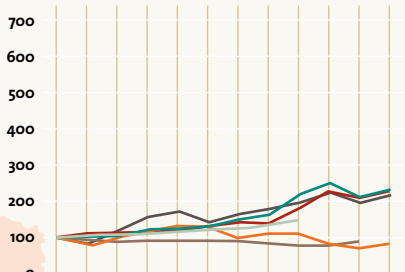
Financial

ROE -61.24%
ROA -95.45%
EBIT 13.15%

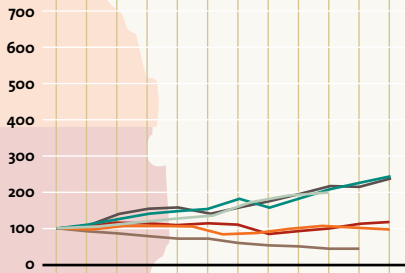
State-by-state comparison
1989 – 2001 (Index: one year = 100)

Key

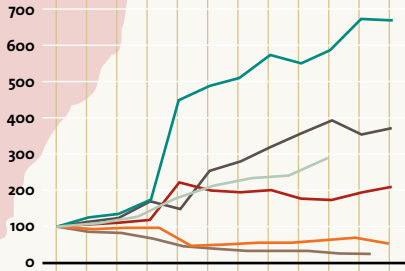
- Sales revenue per employee
- Trading profit margin
- Total revenue
- Employment
- iND gross per employee
- Electricity per employee



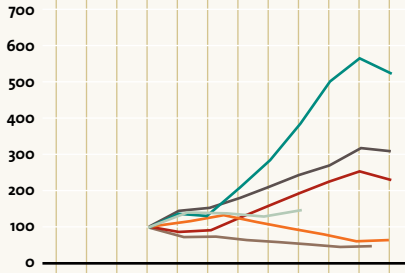
Queensland



New South Wales



Victoria



South Australia (1992-3 onwards)

1989 – 90 91 92 93 94 95 96 97 98 99 00 01

* ABS published information regarding electricity generated between the years 1990–1991 and 1996–1997 for Queensland and SA. Information for NSW and Victoria were published until 1997–1998. A common time period 1989–1990 to 1996–1997 was chosen to enable comparisons to be carried out.