

Subsidies article for Farmers' Weekly

The Domestic Energy Users' Network media release last week started with the statement "*domestic electricity users are subsidizing commercial and industrial electricity users.*" On the basis of these claimed subsidies, the Domestic Energy Users' Network called on "*government to set up an independent review to determine a fair and efficient pricing system for domestic consumers.*"

This was a very big call and certainly got a lot of media coverage. But are there subsidies?

The claim of subsidies assumes those sectors of the economy where demand growth is highest should pay more for the higher incremental cost of supply. As demand growth in the industrial and commercial sectors has been higher than households; then those sectors should have paid more. The data shows the opposite, with average household prices rising faster than other sectors. Therefore, so the argument goes, this is evidence of cross-subsidies.

I think this analysis is very weak. For example, resources needed for an extra kWh demand by a household is not the same as that needed for industry. Demand growth in the household sector incurs additional generation, transmission, distribution and retailer costs. At the other extreme, a large industrial consumer connecting new load to the grid has no distribution company related costs and has significant economies of scale affecting, for example, retailer related costs. Exactly the same amount of new supply side resources are needed for an industrial consumer with new demand used 24 hours per day, 365 days per year, and that by a household that uses one extra kWh for one hour every year. The price to the household for that extra one kWh should be much higher than the price to the industrial consumer.

Just using price statistics doesn't capture some costs paid directly by large power users'. For example a new dairy farm is likely to have to pay a capital contribution for connection assets and that may not be captured in the price statistics. Similarly grid connected large industrial consumers pay directly Electricity Commission levies rather than in their purchase price like households.

The detail in any analysis matters, especially if one party is going to claim they are cross-subsidizing another. I don't think the Domestic Energy Users' Network analysis and therefore their claim of subsidies stands up to scrutiny.

This is unfortunate because the Domestic Energy Users' Network has an important role to play in a sector heavily dominated by suppliers. Moreover it undermines the key message that an independent review is needed. Of that I'm in agreement, provided a review considers not just the retail market, but also the wholesale market and the role of the Electricity Commission.