

1922.

VICTORIA.

Thompson

File

PROGRESS REPORT

OF THE

SELECT COMMITTEE

ON

ELECTRICITY SUPPLY

(THE PROVISIONS OF THE STATE ELECTRICITY COMMISSION BILL AND THE PURCHASE OF THE NORTH MELBOURNE ELECTRIC TRAMWAYS AND LIGHTING COMPANY'S WORKS AND UNDERTAKINGS);

TOGETHER WITH APPENDICES.

Ordered by the Legislative Assembly to be printed, 21st November, 1922.

By Authority

ALBERT J. MULLETT, GOVERNMENT PRINTER, MELBOURNE.

EXTRACTED FROM THE VOTES AND PROCEEDINGS.

WEDNESDAY, 4TH OCTOBER, 1922.

7. ELECTRICITY SUPPLY COMMITTEE.—Motion made and question—That a Select Committee be appointed to inquire into and report upon—

- (a) the proposals contained in the State Electricity Commission Bill;
- (b) the purchase of the works and undertakings of the North Melbourne Electric Tramways and Lighting Company Limited in the municipal district of the city of Melbourne and of the city of Essendon;
- (c) the scheme for the supply of electricity to the South-Western District of Victoria; and
- (d) the Sugarloaf scheme for the supply of electricity to the North-Eastern District of Victoria.

—(Mr. Lawson)—put and, after debate—

The House divided.

Ayes, 32.

Mr. Angus	Mr. McDonald
Dr. Argyle	Mr. McGregor
Mr. Baird	Mr. McLachlan
Mr. Barnes	Mr. McLeod
Mr. Beardmore	Mr. McPherson
Mr. A. A. Billson	Mr. Morley
Mr. Cameron	Mr. Oman
Mr. Deany	Sir Alexander Peacock
Mr. Downward	Mr. Robertson
Mr. Eggleston	Mr. Ryan
Mr. Everard	Mr. Smith
Mr. Farthing	Mr. Snowball
Dr. Fetherston	Mr. West
Mr. Gordon	
Mr. Greenwood	
Mr. Lawson	
Mr. Lind	

Tellers.

Mr. Groves
Mr. Pennington

Noes, 26.

Mr. Allan	Mr. Murphy
Mr. Bailey	Mr. Old
Mr. J. W. Billson	Mr. Prendergast
Colonel Bouchier	Mr. Rogers
Mr. Bowser	Mr. Slater
Mr. Brownbill	Mr. Tunnecliffe
Mr. Carlisle	Mr. Wallace
Mr. Clough	Mr. Warde
Mr. Cotter	Mr. Weaver
Mr. Dunstan	Mr. Wettenhall
Mr. Frost	
Mr. Hughes	
Mr. Jewell	
Mr. Mackrell	

Tellers.

Mr. Cain
Mr. Webber

And so it was resolved in the affirmative.

THURSDAY, 12TH OCTOBER, 1922.

5. ELECTRICITY SUPPLY COMMITTEE.—Motion made and question—That the Select Committee on Electricity Supply consist of Mr. Beardmore, Mr. Deany, Mr. Eggleston, Mr. Farthing, Mr. Lind, Mr. McLeod, and Mr. Smith, with power to sit during the sittings of the House and on days on which the House does not meet; to send for persons, papers, and records; and to report the minutes of evidence from time to time; three to be the quorum (Mr. Lawson)—put and, after debate—

The House divided.

Ayes, 25.

Mr. Angus	Mr. McGregor
Dr. Argyle	Mr. McLeod
Mr. Baird	Mr. McPherson
Mr. Barnes	Mr. Morley
Mr. Beardmore	Mr. Oman
Mr. A. A. Billson	Sir Alexander Peacock
Mr. Cameron	Mr. Robertson
Mr. Deany	Mr. Toutcher
Mr. Eggleston	Mr. West
Mr. Everard	
Mr. Gordon	
Mr. Greenwood	
Mr. Lawson	
Mr. Lind	

Tellers.

Mr. Groves
Mr. Pennington

And so it was resolved in the affirmative.

THURSDAY, 26TH OCTOBER, 1922.

4. ELECTRICITY SUPPLY COMMITTEE.—Motion made, by leave, and question—That the evidence taken before the Select Committee on Electricity Supply be printed from day to day (Mr. Lawson)—put and agreed to.

APPROXIMATE COST OF REPORT.

Printing (500 copies) .. .

£ 14 0 0

PROGRESS REPORT.

THE SELECT COMMITTEE appointed to inquire into and report upon—

- (a) the proposals contained in the State Electricity Commission Bill;
- (b) the purchase of the works and undertakings of the North Melbourne Electric Tramways and Lighting Company Limited in the municipal district of the city of Melbourne and of the city of Essendon;
- (c) the scheme for the supply of electricity to the South-Western District of Victoria; and
- (d) the Sugarloaf scheme for the supply of electricity to the North-Eastern District of Victoria—

has the honour to report to your honorable House as follows:—

1. Your Committee has investigated two of the four subjects submitted to it for inquiry and report, namely, the *State Electricity Commission Bill 1922* and the purchase of the North Melbourne and Essendon Electric Lighting and Tramway proposition.

2. The evidence received so far is, however, very voluminous, and the issues in connexion with the other matters submitted, namely, the supply of the South-Western and North-Eastern Districts, are complex, and require a considerable amount of investigation. The Committee, therefore, deems it wise to present its Report on the first two subjects at the earliest possible moment.

3. In investigating the first two problems your Committee had before it no less than 31 witnesses, most of whom represented municipalities interested either in fact or in prospect in supplying electricity to their constituents. Some of these witnesses represented the city of Melbourne, whose electric supply department has been supplying the citizens of Melbourne with electric lighting and power, and is also supplying outlying districts—such as Brunswick, Footscray, Williamstown, and others—with electric energy in bulk. This undertaking has been very successful, and is acknowledged by the Electricity Commission to be efficiently managed. Nearly all of the representatives of municipal bodies expressed the fear that the rights claimed by municipalities to distribute electricity within their borders would be invaded if the powers and orbit of the State Electricity Commission were developed in the way in which they seemed to be tending. The anxiety was, therefore, freely expressed that the Electricity Commission might invade the province of municipalities and thereby impair their efficiency to perform the functions for their constituents which were contemplated in the original Electric Lighting and Power Acts, and which, these witnesses considered, would be better performed by municipalities than by the Commission itself.

4. With respect to this aspect of the matter your Committee would point out that the Commission was appointed by Parliament to control the supply of electric energy and to secure that it should be generated and distributed under the best possible conditions and subject to the necessary safeguards, both for the State itself and for those who wished to consume it. The object of the original legislation which constituted the Commission, laid out its organization, and defined its powers, was to provide that this great work, costing several millions of money, with the success and extension of which the future of our great manufacturing industries is closely bound up, should be endowed with an authority and power which would enable it to carry out its work efficiently and successfully and with satisfaction to the people of Victoria generally. This is obvious if Act No. 2996 is looked at. This Act evidently was not fully understood by many of the witnesses who gave evidence before the Committee, for it will be seen that many of the powers which are now objected to were given to the Commission on its initiation, and the duties which were specified for the Commission involved many of the actions which are now

taken and to which objection is now laid. To show this we quote section 11 of Act No. 2996, which gave the Commission the following powers and laid upon it the following duties:—

- (a) To inquire into and report to the Minister as soon as practicable, and from time to time as to—
- (i) the steps which in their opinion should be taken to secure the ultimate co-ordination or unification of all State or other electrical undertakings in Victoria, and to secure the adoption of such standards of plant and equipment and of system frequency and pressure for the generation distribution and supply of electricity as will admit of the efficient inter-connexion of such undertakings and interchange of electricity throughout the same and, generally, the safe economical and effective supply of electricity throughout Victoria, and to secure the amalgamation or concentration of such undertakings;
 - (ii) the prospects of establishing in Victoria new industries requiring large quantities of cheap electrical energy; and
 - (iii) any matters referred to the Electricity Commissioners by the Minister for report.
- (b) To encourage and promote the use of electricity and especially the use thereof for industrial and manufacturing purposes.
- (c) To carry out investigations surveys explorations and borings to ascertain the existence nature and extent of coal deposits or of water-power suitable for use in connexion with the generation of electricity, and to ascertain suitable sites for generating stations.
- (d) To carry out investigations as to the safest, most economical and effective means for promoting establishing extending and improving works for the generation distribution supply and use of electricity throughout Victoria, and particularly for industrial and manufacturing purposes.
- (e) To make recommendations for regulations to be made under this Act by the Governor in Council on the recommendation of the Electricity Commissioners.
- (f) To recommend to the Minister such amendments of existing legislation and such proposals for future legislation as they think desirable for carrying into effect any of the objects or purposes of or referred to in this Act.

Section 12 of the Act also gives to the Commission most detailed powers as follows:—

12. Subject to this Act the Electricity Commissioners may on behalf of His Majesty—
- (a) construct maintain and work any electrical undertaking as defined in this Act;
 - (b) supply electricity to any Commonwealth or State Government Department and to any public body or institution;
 - (c) supply electricity in bulk to any undertaker or to any statutory corporation;
 - (d) supply electricity to any person or body of persons corporate or unincorporate outside any area for which there is an Order in force at the commencement of this Act; and
 - (e) in connexion with any such undertaking carry on any business usually associated with such an undertaking.

Section 17 gives the Commission power to make regulations of a very far-reaching character, including under paragraph (d) the power to prescribe—

All such matters and things as are necessary or convenient to be prescribed so as to secure the ultimate co-ordination or unification of all electric supply undertakings in Victoria and the adoption of such standards and plant and equipment and of system frequency and pressure for the generation distribution and supply of electricity as will admit of the efficient inter-connexion of such undertakings and interchange of electricity throughout the same and, generally, the safe economical and effective supply of electricity throughout Victoria.

Your Committee has deemed it desirable to refer to the original powers of the Commission at length, because many of the witnesses examined by it appeared to consider that the Commission is an interloping body which, without authority, desired to usurp portion of the functions, privileges, and duties of the municipalities. It was asserted that the Commission was constantly going to Parliament for new powers, and that the invasion of the rights of the municipalities was a progressive one, and nobody knew where it would stop. Your Committee does not think that this was a just criticism, because the original powers were so wide, and the responsibility laid upon the Commission so far-reaching, that it is difficult to see how any of the subsequent powers conferred have substantially extended the original powers. The subsequent powers have, in the main, been minor extensions or corrections of defects in the provisions of the original Act, the main additional powers being contained in sections 16 and 17 of Act No. 3104; and it will be seen that in the case of the powers proposed in the Bill ample safeguards are provided. In most cases the consents of the Governor in Council and Parliament are provided for.

5. Your Committee examined the Chairman of the Commission and his colleagues at length as to their interpretation of their functions and the principles upon which their powers were being exercised; and, in order to acquaint Parliament with their views, your Committee has annexed to this Report Appendices A and B, statements made by the Commission of the principles upon which they are administering the authority which they believe to have been committed to them. The first statement deals with the powers of the Commission, how they are being exercised, and relates to the whole of the undertaking; and the second deals with the problem of retail distribution of electricity in rural districts.

6. It will be seen that in the original Act, although the Commission is given power by section 12, sub-section (b), to supply electricity to any Commonwealth or State Government Department or to any public body or institution it is limited in sub-section (d) in the supply of electricity to other persons and corporations to places outside any area for which there is an Order in force at the commencement of that Act. The Commission could not distribute electricity in retail in any area for which any council or undertaker had an Order in Council, though under section 16 of Act No. 3104 municipalities could apply to the Commission for the supply of electricity within an area for which it had an Order, and under section 17 the Commission is appointed the sole authority which can purchase from undertakers their rights under any Order in Council.

7. This immediately raises the issue of the authority of the Commission and the desirability of the Commission supplying electricity to consumers on retail terms. These Acts, of course, were passed nearly four years ago, and have not been objected to until recently. It is rather to the present exercise of these powers to which exception is now being taken by bodies and persons whom they affect. It should be said, however, that the Commission has not exercised in any arbitrary or even extensive way the powers which they possess. The Chairman of the Commission and his colleagues have, in their statement to the Committee, definitely stated that they do not desire to coerce the councils, and, in particular, the council of the City of Melbourne. They did not, as they stated to the Committee, wish to antagonize these bodies; and, although they are definitely in favour of a scheme of distribution in the metropolitan area and other places which may impinge upon the privileged position of these bodies, they would prefer that the latter should, through the education of public opinion and experience of the working of the whole Morwell Scheme, be brought into line with them, and into willing co-operation, with the idea of securing to the consumers and citizens of Victoria the supply of electric energy on the most favorable terms. It, therefore, seems to your Committee that much of the propaganda which has been launched against the Commission is the result of misunderstanding, and has been exceedingly unfair to the members of the Commission. It has affected the Morwell Scheme by arousing against the Commission a feeling of suspicion and antagonism which it has not provoked and does not merit. We consider the Chairman and Commissioners completely exonerated from any charges of bad faith. If Parliament does not agree with the policy of the Commission, as outlined in the documents which we have placed in the Appendices, it should say so at once, and take the necessary steps to amend the Acts constituting the Commission and defining its powers; but if Parliament agrees with such policy, and thinks it conducive to the successful working of this great scheme, and if it is satisfied that the men whom it has appointed on the Commission to carry it out are worthy of the confidence of the community, and have the requisite ability to carry out its functions, it is desirable that Parliament and the community should support them in their onerous task, and give them the authority necessary for that purpose.

8. Another widespread fear expressed by witnesses before the Committee was that the Commission would develop into a monopoly. That is, to some extent, true. The Act constituting the Commission definitely gave it control, not only over the Morwell Scheme, but over all electrical undertakings in Victoria. In the generation and supply of electricity the cost is so enormous that to allow two authorities to operate in one area is to prevent economy and efficiency. But in this case the object of the Legislature has been to provide that the monopoly shall not be in the hands of private individuals or corporations, but in the hands of a body representing the people, and that it shall not make a profit. Your Committee, therefore does not consider that this objection has any weight. But even if it is necessary to constitute a monopoly of the generation and supply of electricity or of the control of electrical undertakings, it by no means follows that there should necessarily be a monopoly of distribution. It is quite feasible that the Commission should supply other authorities in bulk, and leave those other authorities to distribute the energy in retail, and collect the charges from the consumers. It has been strongly pressed upon the Committee that this was the natural division of functions to be followed, and that it was against reason for the Commission to exercise a monopoly both over production and distribution. It was stated as a corollary to this that the municipalities were the only authority to perform the functions of distribution to consumers. It is undoubtedly a fact that in the early stages of electrical development the municipalities were regarded as the proper body to whom the function of distribution was to be committed, and even where Orders in Council were taken out or assigned to private corporations a municipality was generally named as the body to whom the franchise should revert when the term was completed. In those early stages, however, the necessity of working electricity in the largest possible schemes, so as to save cost and get the advantage of all diversity factors, was not understood, and the fact that municipal boundaries did not always coincide with the proper areas for economic distribution of electricity was not appreciated. Thus, under the early legislation municipalities have acquired a vested interest in the distribution of electricity, and in all parts of the world their influence has tended to prevent the change, which has been universally recognised by electrical experts to be necessary, from distribution according

to municipal areas to distribution according to the dictates of electrical economics, so far as area is concerned.

9. It may be pointed out that at the present time the distribution of electricity in Melbourne is in a very chaotic condition. Sir John Monash in his evidence describes the varying types and principles of generation and distribution which are at work in the metropolitan area. It is quite obvious that if the scheme is to be effective some change must of necessity be made, and one of the functions laid down for the Commission by Act No. 2996 was to secure co-ordination and unification in this respect.

10. At the present time, however, it is not necessary for your Committee to make a decision either in favour of or against municipal control. At present about two-thirds of the metropolitan area, comprising sixteen municipalities, is served by the Melbourne Electric Supply Company, which has a franchise expiring in November, 1925. On that date these sixteen municipalities, who assigned their rights under an Order in Council to the Melbourne Electric Supply Company, have a right of purchase on certain terms. This cannot be exercised by these municipalities for the lines in their respective areas, but only as one undertaking by all the municipalities. It is not quite clear what policy should be adopted at the conclusion of this franchise. It may possibly be that the Melbourne Electric Supply Company will be willing to act as a distributor for this area on such favorable terms that it would be better to give an extension of their rights for another ten years rather than incur the huge capital outlay necessary to purchase the undertaking. The question is now being dealt with by the Commission, and negotiations are in progress between the Commission and the Company, but have not yet reached the stage at which it is desirable to make them public. In fact, the whole discussion of the matter before your Committee may tend to affect the course of these negotiations, and to weaken the hand of the Commission in regard to them. It is, of course, quite impossible, pending a decision of this question, for the Commission to decide upon a general scheme for the distribution of electricity throughout the metropolitan area. The Morwell power will be delivered to the metropolitan area at certain sub-stations, the positions of which have been determined. These sub-stations are acknowledged by the opponents of the Commission to be exceedingly well placed to suit metropolitan conditions, and can be taken advantage of by the City Council and the Melbourne Electric Supply Company for a period without serious disadvantage. It would thus be feasible to allow the final determination of the scheme of distribution throughout the metropolis to wait over until the franchise of the Melbourne Electric Supply Company is finally determined. The Commission have informed your Committee that they cannot advise the Government as to the best scheme until it is known what is to be done with the area at present controlled by the Melbourne Electric Supply Company. If the franchise of the company is extended the condition of things will be that this company will control the sixteen municipalities mentioned, the Melbourne City Council will deal with the City Council area, and the Commission will deal with the North Melbourne and Essendon area which it has acquired. If, on the other hand, the franchise of the Melbourne Electric Supply Company comes to an end in 1925 a scheme of distribution for the metropolitan area must be decided upon. Your Committee recognise the efficient work of the Melbourne City Council in the past in pioneering the electrical supply of the Melbourne area. The claims of the City Council to consideration cannot be overlooked. On the other hand, the council must realize its responsibilities to its citizens, and should willingly co-operate in a scheme which will serve the best interests of the metropolitan area.

STATE ELECTRICITY COMMISSION BILL.

11. We now come to the first subject which has been referred to us, and that is the desirability of passing the State Electricity Commission Bill which has been brought before Parliament this session. The State Electricity Commission Bill has six clauses, the last three of which are purely machinery provisions dealing with the legal powers of the Commission, and do not need any comment from your Committee, as they appear to be necessary and without any political significance. The chief issues of the Bill are involved in clauses 2 and 3. Clause 2 is a provision for enabling electrical energy to be supplied to country districts and, with a view to decentralization, for providing that the demand for electricity in certain districts shall be encouraged by means of subsidies.

12. This clause simply provides a means for the more-sparsely-populated districts of the community getting an electricity supply upon a time-payment basis. Municipalities can apply to the Commission for a supply of power, and if on investigation such schemes are likely to be payable the Commission can supply these districts without parliamentary authorization. If on examination it is found that such a scheme is not likely to pay at once, but is likely to pay within ten years, the Commission can so report, and upon Parliament authorizing such scheme it can be carried into effect. In such a case the loss during the ten years will be contributed from three separate sources: The municipality itself will contribute one-third of the loss, the

Government will contribute one-third out of the Consolidated Revenue, and the Commission itself will contribute the other third out of its revenue. It will thus be seen that the municipality will be relieved of two-thirds of the loss which will be occasioned by the supply of electricity to its district. This being so, your Committee cannot understand the objections that have been made by certain representatives of municipalities that burdens are cast by the scheme on country municipalities. The very opposite is the case. The contribution of one-third of the loss from the Consolidated Revenue is a just provision and a statesmanlike way of assisting decentralization and supporting districts of the State which might otherwise find themselves unable to take advantage of the Morwell scheme. The provision that one-third of the loss shall be made up out of the revenue of the Commission is more debatable, because it throws upon successful and well-founded schemes the burden of sharing in the loss on less profitable schemes. But the liability of the Commission is not a large one, and your Committee does not think it is unreasonable to ask the Commission to contribute to this extent. As the Commissioners will deem it a responsibility of their own to make the whole scheme satisfactory from the financial point of view, this obligation will probably act as a stimulus to them to economy and efficiency. It is provided by sub-section (iii) of sub-section (e) of sub-clause 3 that the liability of the Consolidated Revenue shall not exceed £10,000. The intention of the clause was that the whole of the loss provided for in schemes of a non-paying character should not exceed £30,000, and as the contribution of the State is limited to £10,000, it was assumed by the Commission that the several contributions of the other two authorities would not exceed this sum. It will be seen, however, that if the loss were £40,000, and the State only paid £10,000, the other two contributors would have to find the balance between them; or if the municipalities are together only charged £10,000, the Commission would have to pay £20,000. There, therefore, appears to be an error in draftsmanship, and it should be provided that the schemes of a non-paying character approved should not be such as would carry a total loss of more than £30,000. The Parliamentary Draftsman has agreed to frame an amendment to this effect.

13. Doubts were suggested as to whether such a limitation would be feasible, but the Chairman of the Commission informed the Committee that as these schemes would not all be provided at once, and as it would speedily become evident as to how the schemes already authorized were panning out, it would be perfectly feasible for them to refuse to countenance subsequent schemes if there were any danger that the total limitation might be exceeded. Your Committee agrees that there would be little difficulty in providing against such a contingency. Some of the witnesses, however, suggested that under this clause the Commission, desiring to magnify their undertaking and extend their powers, might extend their supply into many unpayable districts. It was further suggested that its power to estimate the cost of the various schemes might be imperfect, and that in time a heavy annual loss might be incurred by the Commission. If this were so there would be no other source from which it could be made up. The whole of the Morwell undertaking would be subject to a heavy burden, which would have to be made up in the charges to all parts of the State, especially the City of Melbourne, which, at present, takes a very large proportion of the power to be supplied. In this case the efficiency of the whole undertaking would be impaired, and instead of getting cheap electricity we would get power at a price which would not enable us to compete with other States. Your Committee does not agree with this suggestion. The Commission will be under a responsibility to supply electricity as cheap as possible and to adopt an adequate financial policy, and it is not likely that they will indulge in schemes which will place a heavy burden on the undertaking. Moreover, as they gain experience of the cost of the schemes and of ascertaining the power requirements of the various districts, they should become the most expert body in the State in formulating estimates of this kind. They are under no obligation to undertake schemes which they do not think payable, and if in the initial stages their estimates are at fault, they can at any time stop other schemes. In connexion with this aspect of the matter it was freely asserted that the estimates of the Commission, originally formulated for the Morwell scheme, have been seriously at fault. The Chairman of the Commission, however, in his evidence, discussed this charge, and asserted that the costs of the work so far have, on the whole, turned out very little in excess of the original amounts. It is true that a considerably larger amount of money is being spent on electricity than was originally contemplated, but he stated that the additional amounts provided are not increases to the estimates of the work originally specified, but are for additions to the scheme and for new schemes in different parts of the State. We have not, up to the present, examined this evidence and checked the figures supplied, but, so far, the evidence of the witnesses who made this suggestion does not appear to us to be well founded, and the statement of the Chairman has not been controverted.

14. To clause 2 two other objections have been made as follows:—It is suggested that clause 2 (b) enables the Commission to supply energy on retail terms, and that that is objectionable. Your Committee will deal in another part of its Report with the contention that the Commission have been, or should be, limited to the supply of electricity in bulk. This is an important issue, and the contention of the opponents of the Commission is largely based on a misunderstanding of the previous Acts. It is sufficient to say, with regard to this sub-section,

that the question as to whether the Commission shall supply in bulk or retail, is entirely a matter for the council concerned. If the Commission proposes to supply in retail, and think that is the only way in which the electricity should be delivered, and the municipality which applies for the assistance of the Commission under sub-section (2) does not agree, the municipality need not go on with the scheme. Clause 2 is entirely optional. This is a matter upon which a good many of the witnesses were under a complete misapprehension.

15. Another objection which was made to sub-section (2) is based on sub-section (8), which provides that all electric lines under schemes undertaken by the Commission under this clause for the supply of electricity at a pressure exceeding 450 volts shall be constructed and operated exclusively by the Commission. Several witnesses pointed out that this would enable the Commission to supply a class of customer with a large demand in the municipality, and that this would be picking the eyes out of the scheme, and probably render both the supply by the Commission and the supply by the council of the balance of the power costly and inefficient. It was also suggested that these high-tension lines would be on the same poles and intermingled with the low-tension lines, and there would therefore be the necessity of having different provisions for supervision, &c. The witnesses from the metropolis were also afraid that such a provision would operate very seriously if applied to metropolitan areas, where there might be many lines exceeding this voltage intermingling with the low-tension lines for retail supply. It was suggested that a provision of this kind would prevent it being possible to properly measure the maximum demand of a district, and that the maximum demand of the high-tension lines would be charged for by the Commission, and the maximum demand of the low-tension lines operated by the municipality would be charged by the municipality, and the sum of these two demands might exceed the maximum demand for the whole district, because of the diversity in time of these two demands. This might not be serious in country districts, but these witnesses stated that it would be extremely serious in the metropolitan area. The answer of the Commission to this was that there was no reason to suppose that a similar provision would be necessary in a scheme dealing with the metropolitan areas, as planned in the scheme of distribution adopted for the supply of Morwell energy to the metropolitan area. Moreover, the districts in the metropolitan area would be determined by the sub-stations, the sites of which have already been selected, and that for each area supplied by these sub-stations the maximum demand would be measured by the meters which would be used at these sub-stations. If the maximum demand were charged for twice at a profit to the Commission such profit would be set against the charges for that district, and would reduce the charges, so that the whole district would be benefited and get its power at the rate justified by the load factor of that district.

16. With regard to country districts the members of the Commission stated most emphatically that it was absolutely essential that the Commission should have complete control over all high-tension lines. They stated that these high-tension lines were an important factor in the scheme, and that accidents happening to high-tension lines might seriously affect its whole efficiency; that is to say, that a breakdown of a high-tension line near Warrnambool might affect the supply to Colac or Camperdown. It was not likely that the staff in small country towns would be sufficiently expert to deal with high-tension lines. Moreover, in many of the municipalities in the country there were several small towns, and it was necessary to bring the supply up to the boundaries of these towns on the high-tension mains and then break it down for distribution within the towns. Although the municipality might undertake the distribution within the various towns of its area, it was not desirable that the high-tension distribution should be controlled by the municipal staff. Again, it must be borne in mind that the supply in sub-section (2) is not obligatory on the council, and that if such a clause were considered objectionable by a council it need not take advantage of the scheme.

17. The next subject for consideration by your Committee was the provisions of clause 3 of the Bill. These were very seriously discussed by many witnesses who gave evidence before us. A great deal of this evidence was based on a misapprehension of the terms of this clause. If section 17 of the State Electricity Commission Act of 1920, No. 3104, be looked at, it will be seen that by that section the Commission is empowered to purchase from any undertaker, to the exclusion of any municipal council or councils, any undertaking under the *Electric Light and Power Act 1915* at the time and on the conditions which the municipal council could have purchased that undertaking under sections 43 and 44 of that Act. The provisions of the last-mentioned Act provide that when a franchise has been given to an undertaker to supply electric light and power it shall be subject to purchase by the municipalities in whose area the Order in Council operates at certain periods. The policy of Act No. 3104 was apparently to make the Commission the sole authority for dealing with the undertaker under the *Electric Light and Power Act* and to substitute the Commission for the municipalities in dealing with these franchises. Act No. 3104 was passed two years ago, and prior to the present juncture no objection has been made to the provisions of this section. The reasons which dictated this legislation appear to have been that the Commission is the body controlling electrical matters in Victoria and that in many cases the councils are not in a position to deal effectively with franchises of this kind. In some

cases the undertaking covers more than one municipality, and the terms of the *Electric Light and Power Act* involve the undertaking being purchased, not by a single municipality or by each municipality so far as its own boundaries are concerned, but by all the municipalities in whose areas the undertaking operates. This in practice gives rise to a very great deal of difficulty in negotiating with the undertaker. In order to effect a deal there must be unanimity on the part of the purchasing councils, and this is very often difficult to secure. It is within the power of the undertaker to set one council against another, and so prevent the bargain being made. Under these circumstances the bargaining power of the various councils is very much diminished. Parliament, therefore, saw fit in 1920 to constitute the Commission as the sole authority empowered to deal with the public right to purchase an undertaking under sections 43 and 44 of the *Electric Light and Power Act 1915*. Experience has shown, however, that the powers given by section 17 are not wide enough. In the first place, the Commission can only buy on the same terms as the councils would have to pay and at the time at which the councils would be entitled to require the undertakers to sell. Thus under section 17 the Commission would in every case have to wait until the end of the franchise before it could open negotiations, and it could purchase only on the same terms as the council could have purchased. There might be occasions on which the undertaker was willing to sell on favorable terms prior to the termination of its franchise, or it might be willing to sell on much more favorable terms than those provided by the *Electric Light and Power Act*. Clause 3 of the Bill, therefore, gives the Commission the power to make an agreement with the undertaker to sell on any terms which the two parties may agree upon; and such sales may take place, not at the end of the franchise, but at any time suitable to the two parties. This is an extension of the section which your Committee thinks is quite justifiable, and it considers that the clause should be passed with the safeguards contained in it. Under the previous clause the Commission could only buy the whole undertaking, but in some cases the undertaker had not only electric lighting and power, but tramways under its control, and in other cases there were parts of the undertaking which might be out of date or unsuitable. It seemed to the Commission that to purchase the whole undertaking might be undesirable, and in cases where tramways formed part they would be outside the scope of the Commission. The clause therefore provides that the Commission can purchase the whole or any part of the undertaking, and can purchase any tramway undertaking operated in conjunction therewith.

18. Some doubt was expressed as to whether it was sound policy for the Commission to take part of an undertaking, as it might seriously affect the supply of electricity so far as the municipality or district in question was concerned. But, as the Commission is constituted as the electrical authority for Victoria, this danger is not, in the opinion of your Committee, a very real one. The safeguards provided by the clause are ample. In the first place, an agreement must be arrived at with the undertaker; secondly, no agreements shall be entered into under this clause without the approval of the Governor in Council, or until such inquiries have been made as the Minister thinks fit; and, thirdly, the ratification of Parliament in such form as Parliament thinks fit must be obtained. Sub-sections (3) (a) and (3) (b) of clause 3 provide that, subject to and until ratification, the undertaking shall be operated by the Commission apart from the tramway undertaking, and that, for this purpose, the provisions of section 12 of the *Principal Act* shall extend and apply so as to give the Commission the necessary powers to carry on the undertaking.

19. Apart from sub-section (3) (b) an area of this kind would be an area in which the Commission could not supply electricity because of an Order in Council having been given for it, and, having purchased the undertaking for which the Order in Council was given, it is necessary that the Commission should have specific power to operate the undertaking, and to carry on the functions of electric supply in that district.

20. In these circumstances your Committee thinks that clause 3 is suitable to be passed by Parliament in the form in which it stands, and recommends that the Bill should be passed by Parliament in the form submitted with the amendment suggested. Your Committee does not lose sight of the fact that under section 3 the Commission is enabled to purchase the North Melbourne Electric Tramways and Lighting undertaking, which has been strongly opposed by the Melbourne City Council, and the advisability of this purchase is the second subject with which the Committee has, so far, dealt. It will be seen that under sub-section (2) parliamentary ratification has to be given for such purchase, and your Committee has investigated this purchase, with a view to advising Parliament whether this ratification should be made. The circumstances of this purchase will, therefore, now be described.

PURCHASE OF THE NORTH MELBOURNE ELECTRIC TRAMWAYS AND LIGHTING UNDERTAKING.

21. The construction of an electric lighting and power and tramway scheme for the districts of Essendon, Flemington, and Kensington originated in an Order in Council dated 4th May, 1904, by virtue of the *Tramways Act 1890* authorizing the construction of tramways in that area, and an Order in Council, dated 14th day of June, 1904, by virtue of powers contained in the

Not at any time

2 Any part which order terminates

alter to "may"

Don't mark this

Electric Light and Power Act 1896 authorizing the councils to use and supply electric energy within their area for a period of 30 years. These Orders in Council were delegated to one Alfred Edward Morgans, who formed the North Melbourne Electric Tramways and Lighting Company Limited. This company proceeded to construct a power-house, and established a system for the distribution of electric energy in the area described, and a system of tramways. In the agreement between the City of Essendon and Borough of Flemington and Kensington there was provision that the councils should have the right in 1918 to purchase the undertaking at its actual cost price, together with interest. There were also rights to purchase at the end of twenty years from the delegation, and at the end of a further period of five years at the then value, with a provision that if the councils did not exercise such right of purchase the whole of the undertaking should, at the end of the term of the franchise, belong to the councils, with the right for the company to receive from the councils the actual amount paid by it for the land. The company formed did not have a very successful career, and its supply of electric lighting and power for the district was not considered satisfactory, while the tramways were not considered very efficient. The shareholders of the company were not fortunate, and it is understood that the undertaking got into the hands of debenture-holders, who were simply anxious to get their money back. The council of the City of Essendon was so dissatisfied with the position that they started negotiations with the Melbourne City Council for the exercise by the councils of their powers of purchase under the agreement. These negotiations were fruitless, and Councillor Showers, a representative of the City of Essendon, stated that the breakdown of these negotiations was due to lack of interest displayed by the Melbourne City Council. He, therefore, approached the Commission to ask if it would purchase. This led to the initiation of negotiations between the Commission and the representatives of the company which ultimately led to the purchase by the Commission of the undertaking. One party to these negotiations was the Tramway Board, and it was suggested that they should take over the tramway portion of the undertaking, which they have ultimately done. Under the agreement it was provided that the consent of the councils concerned should be obtained for any transfer of the undertaking, but that this consent should not be withheld in the case of any transfer to a reputable and solvent purchaser. It was, therefore, necessary for the councils of the City of Melbourne and City of Essendon to be consulted as to the purchase, and early in the negotiations the Town Clerk of Melbourne discussed the matter with the Chairman of the Commission, and asked to be informed as to the negotiations prior to any definite bargain being arranged. A promise to this effect was given by Sir John Monash to the Town Clerk. The bargain was effected in April, 1922, and the agreement was entered into, dated 30th day of June, 1922, setting out the terms of the purchase, with subsidiary agreements, dated the same date. The only material circumstance involved in these negotiations is the claim made by the City Council that Sir John Monash made a promise to the City Council that in the event of the negotiations referred to being successful the Commission would be willing to transfer to the City Council the part of the undertaking situate in the City Council's area, namely, the Hopetoun Ward.

22. It will be remembered that the Melbourne City Council took over some years ago the Borough of Flemington and Kensington, and the Hopetoun Ward is the area which originally formed this borough. The City Council, therefore, as the successor of the Borough of Flemington and Kensington, has rights under the original agreement. The representatives of the City Council state that owing to the promise of the Chairman they did not, as they might have done themselves, negotiate for the purchase of the undertaking. After the offer of the Commission was accepted by the North Melbourne Electric Tramways and Lighting Company the City Council asked the Commission to transfer this portion of the undertaking to the City Council, and the Commission then refused. It is regrettable that such a misunderstanding should have arisen, and it seems probable that some members of the Melbourne City Council did believe that the Commission would be willing to transfer part of the undertaking to the City Council. But your Committee is of the opinion that no binding promise of any kind was made by Sir John Monash, and there was no real basis for such an opinion. It will be seen that the City Council could not at the time exercise any power of purchase from the North Melbourne Electric Tramways and Lighting Company, and it is exceedingly doubtful whether they can, without the concurrence of the Essendon Company, acquire the undertaking by purchase before the end of the franchise. It is even doubtful whether in law they can succeed to the rights of the undertakers at the end of the term unless they do it in conjunction with the Essendon Council. It is impossible to see in the correspondence or in the notes of the various interviews between the Town Clerk and the members of the Electric Light Committee of the Council and Sir John Monash any promise by Sir John that the undertaking or any part would be handed over to the council. After the conclusion of the bargain, on the 29th April, an interview was held between the representatives of the City Council and the Chairman of the Commission, in which the former asked that the Commission would consider the transfer of the Hopetoun Ward part of the undertaking to the City Council, to be operated as part of its electric light and power undertaking. The terms of such transfer were discussed, and the figures on which such a transaction would have to be based mentioned. Sir John Monash states—and in this he is supported by the Secretary of the

Commission—that before the commencement of this discussion he stated that any remarks he made must be taken as merely personal, and not as binding the Commission. There is no note of this statement in the report given by the City Council of this interview, but the interview, according to these notes, concluded with a request by the City Council representative that Sir John Monash should bring the matter before his Commission and arrange a date for an interview. Therefore, Sir John Monash's statement that he was not discussing a definite offer to the council is borne out by this statement. It is clear also that Sir John Monash deprecated the taking over of any part of the undertaking by the City Council, and warned them that if any separation were made of the Hopetoun Ward from the Essendon District the purchase price would be much increased owing to the damage done by the severance of these two areas. According to the report of the council, Sir John Monash stated that the Commission were not desirous of selling their rights in the area, but would not oppose the Melbourne City Council if the latter were prepared to pay. Sir John Monash denies having made this statement, and as he went on, according to the City Council's notes, to say that it would be better policy if the Commission supplied and developed the area, and let it revert to the Melbourne City Council in 1934 as under the terms of the franchise, it is clear that no binding promise was made. The interview arranged for at this preliminary discussion took place on the 7th June, 1922, and your Committee invites the attention of Parliament to the note of this interview which has been put in by the City Council. It will be seen that in the request by the City Council for negotiations for the transfer of the whole or any part of the area no claim was made that a promise to make such a transfer had already been given by Sir John Monash, and, at the end of the interview, the Town Clerk puts the matter in a nut-shell: "There are two points: 'Will the Commission treat with us?' Secondly, 'What are the terms?'" In view of this statement your Committee does not see how the Council can put it that in refusing to sell to the Council the Commission were guilty of any breach of faith or broke any promise made by the Chairman of the Commission. It seems regrettable that such a charge has been made against the Commission; but it is easy to see how in a composite body like the City Council councillors not present at interviews gain impressions from second-hand statements made or from a perusal of the record of those interviews. This point has evidently embittered the relations between the Council and the Commission, and while such a misunderstanding undoubtedly existed, your Committee does not consider that it was due to any default on the part of the Chairman of the Commission or any of the Commissioners.

23. This leaves us to consider the main points in connexion with the purchase—

- (a) whether it was a desirable purchase from the point of view of the Commission; and
- (b) whether the Commission has done right in refusing to sell a portion of it to the City Council.

On the first point we would draw attention to the report of the Chairman of the Commission to the Committee, dated 13th November. The purchase price of the whole undertaking was £116,000, which was allocated as follows:—Tramways, £30,000; lighting and power supply, £50,000; and power-house, £36,000. The cost to the Commission was, therefore, £86,000. It was made a term of the purchase that the Commission should write down from its revenue this cost, so as to reduce it to nothing at the end of the term of the franchise in 1934. This imposed a somewhat severe obligation on the Commission. Sir John Monash's report, however, shows clearly that the purchase was justified from the financial point of view, and the result of the first period of working confirms this. It shows that the operation of the area by the Commission is already showing signs of success, and there is a very great prospect of a reduction in charges in this area. It will be seen also that in 1934 the capital cost of the undertaking and all the expenses of converting it to the standard required by the Electricity Commission will be paid for, and this area will have its distribution system free of cost. If this eventuates a specially low rate may be charged for electricity. Moreover, in the criticism of this undertaking by the representatives of the City Council, or by the various experts who have dealt with the subject, before the Committee, from a point of view antagonistic to the Commission, no suggestion has ever been made that the price is excessive. The City Council representatives stated that they were willing to pay a higher price; in fact, any price within reason for the area. Your Committee does not think, therefore, that the purchase can be criticised from the point of view of financial expediency.

24. The refusal of the Commission to sell any part of the area to the Melbourne City Council stands on a different basis. The original intention of the City Council was to purchase that part of the area within its city boundaries; that is to say, the Hopetoun Ward, and they apparently hoped to run it in conjunction with the rest of the city area. It will be seen, however, that Sir John Monash deprecated, from the first time the purchase was discussed, the severance of the area, and stated that if such severance were to take place the cost would be very much increased, owing to the effect of such severance on the economics and efficiency of the supply to the Essendon section,

The reasons for this are explained in Sir John Monash's evidence and in his report of 13th November. Your Committee has no doubt, from the point of view of the consumers in this area, that the severance would be undesirable, and that if any part of this area is to be managed by the Commission the whole of it should be so taken over. The representatives of the City Council themselves recognise this, and met the objection by suggesting that they were willing to take over the Essendon section as well as the Hopetoun Ward. It thus became a question whether the whole of this area should be controlled by the Commission or by the City Council. The City Council were evidently actuated by the fear that if the Commission established its claim to control, not only the supply in bulk, but the retail distribution of electricity in any area which was part of the City Council's territory, they would establish a footing as distributors in the metropolitan area, and this might give them an advantage in the discussion of the problem of retail distribution in the metropolis, with which we have dealt in another part of our Report. The Commission suggests that this question is bound up with the general question as to the planning out of the whole metropolitan area, and the control and distribution of electricity there, and that until the franchise of the Melbourne Electric Supply Company is dealt with it is not proper to change the situation so far as the authorities at present in existence are concerned. They suggest that this area should be left in their hands pending a general decision on this important question. If the franchise of the Melbourne Electric Supply Company is extended for a further period it would be better that the supply of electricity should remain substantially as it is until the whole problem is eventually tackled. Your Committee strongly favours this view, and considers it would be best to leave the matter *in statu quo* until the general policy for dealing with electricity in the metropolis is finally determined. It will be seen that, from the electrical point of view, the North Melbourne and Essendon area should be dealt with as one. The Flemington load is a day load, and it differs from the Essendon area, which is mainly a night load. There is, therefore, a diversity in the maximum demand which is advantageous to the whole area. The area also forms a nucleus of the area which will be served by the "D" sub-station of the Morwell transmission scheme. When the Morwell power is supplied to these sub-stations the reticulation of the area will be centred at a point in the area occupied by these sub-stations, which is contiguous to the present power station. The area will, therefore, be best served by treating it as one.

25. In the literature which was circulated prior to the sitting of your Committee it was freely asserted that the Melbourne City Council could serve this area better than the Commission and that a sum of £3,500 could be saved by the City Council in the supply of the Hopetoun Ward and a sum of £5,000 in the supply to the Essendon area. These figures, however, were obtained by assuming that the rate of charges hitherto made by the company would be continued by the Commission, whereas the City Council would apply to this area its ordinary tariff. There was, however, no warrant for the assumption as to the maintenance of the old charges in the area by the Commission. The Chairman of the Commission has stated that, on the experience of the first period of working, these charges can be reduced. This argument therefore falls to the ground. Various other statements were made by the City Council's representatives to show that by working the two areas in conjunction they could effect economies which would enable them to supply the power and light to the consumers in the area in question cheaper than the Commission. But as the power supplied both to the City Council at its sub-station "J" and North Melbourne and Essendon area at sub-station "D" will be obtained from the Commission, and as the area to be supplied by sub-station "D" is acknowledged by the witnesses on both sides to be ideally suitable for supplies from that station, your Committee, with one exception, does not consider there is anything in this suggestion. If the two areas could be better worked in conjunction then the planning of the distribution system of the Morwell scheme must be wrong. Your Committee does not think that the two areas can be better worked in conjunction, because this would involve transmission lines in between the two, and the engineer of the Commission pointed out that an interchange of electricity between the areas supplied at different sub-stations would be highly inadvisable. The City Council's witnesses also stated that, while the Government has imposed onerous terms on the Commission directed to extinguishing the capital liability on the undertaking within twelve years, the Council would not consider itself bound to pay off the undertaking within such a short time. They contend that they are therefore able to save in capital charges. As, however, the early payment of this capital liability is, in the opinion of your Committee, a sound course, and as it will ultimately put this area on an exceedingly favorable economic basis, your Committee has not been convinced by these figures. It is convinced that the area will be at least as favorably handled by the Commission as it could be by the Melbourne City Council.

26. For these reasons, your Committee advises Parliament to approve of the North Melbourne Electric Tramways and Lighting purchase, and to ratify the same as early as possible.

Committee Room,
State Parliament House,
Melbourne, 21st November, 1922.

APPENDICES.

APPENDIX A.

THE POWERS OF THE COMMISSION AND HOW THEY ARE BEING EXERCISED.

1. The Chairman of the Select Committee has requested me to make a general statement upon the question known as the "retail distribution" of electricity throughout the State, and of the policy of the State Electricity Commission regarding same.

2. In doing so it is necessary to refer briefly to existing legislation on the subject, so that the powers and duties already committed by Parliament to the Commission may be clearly understood.

3. Under Act 2996, section 12—

(a) the Commission may "work" any electrical undertaking as defined in this Act, and under the definition clause, section 2 (1) this includes "distribution, supply, and sale" with respect to any undertaking approved by the Governor in Council;

(b) the Commission may supply electricity to any Government Department, whether State or Federal, or any public body or institution; such, for example, as the lighting of all public buildings in the city of Melbourne or elsewhere in the State, or all Government tramways, railways, sewerage works, water supply works, post and telegraph offices, Government factories, arsenals, ammunition works, woollen mills, workshops wherever situated; also all public hospitals, libraries, railway stations, street lighting, and the like. All such services necessarily involve low-tension distribution both in construction and operation;

(c) the Commission may supply in bulk to undertakers and corporations, *i.e.*, it may in its discretion supply a council in bulk, say for street lighting, or (the council being a public body) the Commission may undertake the street lighting direct;

(d) the Commission may supply electricity to individuals (*i.e.*, private persons also) in any part of the State in which on 7th January, 1919, a franchise or order had not yet been granted. It is pointed out that this covers the greater part of the State; as, outside of the Metropolis, orders for electric supply have been confined to about 86 country towns, many of these orders being in private hands. Thus, the great majority of country towns have no orders in force, and under this legislation the Commission has full statutory power to distribute electricity in all of them.

4. Again, under Act 2942, section 3, the Victorian Railways Commissioners have been given power to distribute electricity to any persons in parts of Port Melbourne, Footscray, Williamstown, Werribee, and Braybrook.

5. All above Acts were passed by Parliament before the Electricity Commission was appointed.

Under Act 3104, section 19, the powers of the Railways Commissioners referred to in paragraph 4 above were transferred to the Electricity Commissioners.

6. Under Act 3104, section 15, the right of a municipality to an order, *as of course*, was taken away, and municipalities can now receive orders only upon the recommendation of the Commission, and only under conditions.

7. Under Act 3104, section 17, the Electricity Commission may, to the exclusion of the council or councils concerned, step in to purchase any private undertaking.

8. In view of the general tenor of all the above enactments, it cannot surely be truthfully said that Parliament never intended that the Electricity Commission should undertake retail distribution of electricity. All these enactments appear to indicate a clear and consistent policy, *viz.* :—that where municipal councils had already, at the time of the passing of the first of the Acts above cited, acquired a franchise for the "retail" supply of electricity, such franchises were to be respected, but that under every other circumstance and in every other territory, as well as in the special case of Footscray, Williamstown, Werribee, and Braybrook, and in the case of all Government and public bodies, the Electricity Commission should have the right to supply, whether in bulk or "retail," and to have the exclusive right to buy up private undertakings. It may be that at the present juncture there are some persons who do not agree with the wisdom of such legislation, but it is an undoubted fact that this legislation exists, and that as to its main purport it existed before the Electricity Commission was created.

9. The Commission has, however, been roundly abused, and held up to public obloquy because it is alleged that the Commission is now seeking these very powers, and is in some cases already exercising these powers. But, except only as regards the purchase of the North Melbourne undertaking (under the powers of section 17 of Act 3104) it is not true that the Commission has done anything of the kind. The Commission naturally had to honour commitments made by the Railway Department in the districts of Footscray, Williamstown, &c., but, although it had full power to do so, the Commission has not, in fact, otherwise made the smallest attempt to enter into competition with those local councils. On the contrary, the Commission has deliberately refrained from undertaking any retail distribution under any other circumstances than those just mentioned; in spite of the fact that there has been a widespread demand from many municipalities, widely separated throughout the State, that the Commission should do so. The municipalities of Shepparton, Queenscliff, Narracan, Korumburra, Mortlake, Winchelsea, and Warrnambool city, &c., may be cited as a few cases in point. This demand has been steadily growing, and has only been recently temporarily checked by the insidious propaganda with which the country has been flooded, discrediting the ability of the Commission to supply cheap electricity, and disquieting country councillors who have been naturally alarmed by such one-sided statements.

10. In further proof of the restraint which the Commission has placed upon its actions in this regard, it may be pointed out that the Commission is already giving, or will shortly give, a bulk supply to Morwell, Traralgon, Narracan, Lilydale, Dandenong, Frankston, Mornington, Colac, Camperdown, Terang, Warrnambool, &c., and has made no attempt, either directly or indirectly, in any of these towns to seize upon the business of retail distribution, although, as has been stated, in several of these places the Commission has been definitely requested to relieve the Councils of such a responsibility.

11. The answer of the Commission, therefore, to the charges which have been scattered broadcast to the general effect that the Commission has been trespassing upon the rights of municipalities, and that the Commission is now seeking still further powers to commit further trespasses upon those rights is, that these charges are absolutely unfounded, and are contrary to the truth. The agitation which has been engineered by a small coterie of more or less irresponsible critics has had the effect, and was deliberately calculated to have the effect, of creating distrust of the Commission in the minds of the very people and the very public bodies whose goodwill towards and co-operation with the Commission are most essential, if the huge expenditure which the State has undertaken in launching the Morwell scheme and its associated works is to become a boon to the people of the State as a whole. I respectfully submit that it is in the power of this Select Committee to do much to restore the good repute and prestige of the Commission, and that if the Committee can see its way to do so, such action will have a most beneficial effect upon the success of the State Electricity Scheme.

12. The Commission has throughout adopted and practised a clear policy. Where the provisions of the law were mandatory it has carried out the duties imposed to the best of its ability, in spite of much obstruction from vested interests or people with an axe to grind. Where the provisions of the law were discretionary the Commission has never exercised such discretion except with the full knowledge and approval of the Government, after close and often lengthy consultation. The Commission has scrupulously respected the rights of all existing undertakers, whether public or private, except in those cases where the law itself has directed a trespass of those rights (as in the Footscray area). The Commission has refrained from exercising its rights to undertake retail supply in territories where those rights undoubtedly exist, even although pressed to do so by the local bodies concerned. The Commission has, in no single case, refused the grant of an Order to any municipal council, whether to enable the Commission itself to step in or otherwise, although it has full power to do so.

13. The reason that the Commission has refrained from undertaking retail distribution in towns or places hitherto unsupplied, and not yet having an order, is that the Commission is strongly of opinion that this very important matter should not be dealt with in a piecemeal fashion, or at isolated places often widely separated. Moreover, public opinion in such matters must first be much more fully educated than it is at present. It is for the very reason that the Commission holds the opinion that sooner or later municipal control of electrical undertakings must come to an end, and must give place to some form of centralized control covering large territories, that the Commission has deliberately refrained from undertaking retail distribution, in order that it might not be truthfully said that the Commission was unwarrantably endeavouring to extend its powers.

14. I wish to emphasize to the Select Committee that it is one thing to hold an opinion antagonistic to the principle of municipal control, but quite another thing actually to act executively in an antagonistic manner. No executive act of the Commission can be truthfully described as antagonistic to the principle of municipal control. At the same time, the Commission, after lengthy investigation and in the full light of the practice and the trend of opinion in other countries, frankly informs the Select Committee that, in its opinion, municipal control of electrical undertakings must sooner or later come to an end; that it is a principle entirely unsuited to the conditions of a great scheme of electrical transmission extending over at least 20,000 square miles; that a continuance of the principle will imperil the success of the whole scheme, both financially, economically, and technically; and that with the passing away of the locally-owned and operated small direct-current plants, having a very limited local range, and the advent of alternating-current electricity transmitted at high voltage from a long distance the present highly inefficient system of operating electric supply by reference to arbitrary municipal boundaries must also pass away. The Commission, the Government, and Parliament must face this great problem with far-seeing courage, undeterred by local clamour or preconceived prejudices.

15. In the above observations only the general conclusions of the Commission have been clearly indicated, but specific reasons in support of those conclusions have not been advanced in detail. If the Select Committee considers that an inquiry into the reasons upon which the Commission relies in support of these conclusions is desirable and within the scope of the Select Committee's present inquiry, I shall be glad forthwith to make a detailed statement regarding this important matter.

16. I desire in conclusion to repeat, on behalf of the Commission, that while, as in duty bound, it will advise the Government and Parliament as to the best means for reforming the present obsolete conditions, the Commission is not seeking any further powers to give effect to such a policy, and has taken and is taking no action whatever to prejudice the question or to embarrass the entire freedom of action of Parliament.

JOHN MONASH,
Chairman.

31st October, 1922.

APPENDIX B.

THE PROBLEM OF RETAIL DISTRIBUTION OF ELECTRICITY IN RURAL DISTRICTS.

1. This Report is presented in pursuance of Act 2996, section 11 (a), and deals with the question of the distribution of electricity so far as it relates to the provincial districts, as distinguished from the metropolitan area. The latter area is subject to special considerations, and the conclusions to be reached rest upon somewhat different grounds. The ultimate co-ordination of electric supply in the metropolis will therefore form the subject of a separate report.

2. A brief reference is necessary to the past history of electric supply in the provincial districts. When electric generation began to be introduced some twenty-five years ago the direct-current system was universally adopted in our country cities and towns. Of eighty-six extra metropolitan orders which have been hitherto granted no less than seventy-four have resulted in the installation of direct current. That system is designed for purely local supply; it has an economic range of not more than a mile from the power house; it is quite unsuited for extension beyond the limited boundaries of a town, or for linking up with other towns at a distance. The service of electric supply, therefore, became necessarily a purely local function in which no other locality was concerned. It was natural and proper that the local governing body should concern itself with the generation and distribution of electricity within its several towns either by owning and operating the system itself or by contracting with a private undertaker to do so.

A close analogy to this situation is the earlier history of the telephone service. Before long distance telephony was practicable the practice was common for the telephone service of a town to be locally managed, and quite independent of other towns. Local management, however, ultimately gave place to centralized management covering large territories. A similar course of development has taken place in railway and tramway services and other public utilities of a like nature.

3. The management of provincial electrical undertakings in this State has in the past been not merely confined almost exclusively to the now obsolete direct-current system but also has been characterized by much inefficiency. The charges for electric service in most country towns are abnormally high; the service itself is unreliable; administration, construction, and maintenance are of a poor standard, the authorities being, as a rule, unable to bear the financial burden of employing skilled professional advice and direction. The result of these conditions is all too clearly shown in published financial statements. Outside the metropolitan area there are operating, at this date, fifty-three municipal electrical undertakings. In only two of these has depreciation of plant and machinery been adequately provided, despite which over forty of these undertakings have been unable to reduce their working expenses to the level of revenue received.

4. The past history of the matter in this State, unsatisfactory as it has been, has nevertheless created a belief, which appears to be widely held, that the control of the service of electric energy is a true and legitimate localized function. There is a prejudice in many quarters against a change, and a definite disinclination on the part of local bodies to surrender what is in many cases regarded as a right or privilege, entailing the possibility of making profits in relief of rates, which is, however, in fact rarely achieved. It is this prejudice which furnishes the most formidable obstacle against future reform. Nevertheless, if the future electric service of this State is to be carried out on sound, economic, and efficient lines, and if the full benefit is to be reaped from the heavy investment by the State in the business of electric generation and transmission, these prejudices must be overcome, and the way cleared for a comprehensive and constructive policy more suited to modern conditions.

5. The State is already committed to works of generation and transmission of electricity on a scale of considerable magnitude. It is, however, not logical or practicable to divorce entirely the function of generation from the function of retail distribution. There is in this State to-day no single instance of an undertaker generating electricity who is not also the retail distributor of that electricity within his territory. With the exception of a few of the Niagara private power companies, it is doubtful if there is any other precedent in the world for entirely separating "generation" from "retail distribution." There is, therefore, no historical or logical basis whatsoever for the doctrine that the State Electricity Commission, which is destined to become the only important generating authority within the State, shall be totally excluded from the function of retail distribution. Not only does the existing law contemplate no such general exclusion, but no ground of efficiency or expediency or economic advantage can support such a doctrine.

6. On the contrary, there are weighty reasons why the opposite view should prevail, and many of these are so obvious as to need only brief enumeration. Thus:—

- (a) The cost of generating electricity is only a portion of the delivered cost to the retail consumer. That is to say, the cost of distribution forms a large part of the price paid for his service by the retail customer. Therefore, inefficiency in the service of distribution is likely to be very serious in its effect on ultimate retail charges. No scheme of electric supply can be cheap and satisfactory unless both functions are efficiently performed. Inefficient distribution will probably wholly annul the advantages of cheap generation.
- (b) A body like the Commission, or any similar body dealing with a large territory, can command the necessary capital for works of distribution at lower rates of interest than a plurality of smaller bodies, acting independently and at different times. It can also, by standardization of design and by letting contracts for bulk supplies of transformers, insulators, conductors, meters, and switchgear, command lower prices than small bodies having limited requirements. It can also acquire and operate labour saving machinery and appliances which are beyond the reach of smaller bodies.
- (c) The cost of operation and management of retail distribution in a number of towns in a large district would also be materially less if handled by a large authority controlling the whole district. Thus the work of maintenance, servicing, meter reading, revenue collecting, &c., all of which functions are necessary even in the smallest country town, could be performed by a central authority controlling a number of towns in the district far more cheaply and effectively than by the local authority in any one town, thus effecting substantial economies in the local administration and distribution costs.

- (d) Municipal councillors (especially in country districts) and to a lesser degree most municipal officers, are unfamiliar with electric economics and with the principles underlying the framing of tariffs for the sale of energy. They are, in consequence, quite unable to encourage in every way the application of electricity to the many departments of life, both private and industrial. Inexperienced overhead management in such matters leads inevitably to a retarded development of the use of electricity, and bears particularly adversely upon the industrial use of electricity. To quote a specific example, a municipal council would find it difficult to understand why it can and should quote to a local industry, say a flour mill, a price which on the average would be much less than the average rate which the council must itself pay for its bulk supply. The Commission has on its files complaints from industrial consumers to this very purport, and others of a similar nature. Moreover, in most provincial municipalities the majority of the councillors usually represent rural ridings having a scattered population, and are therefore not necessarily interested in the electric service of the more closely-settled urban riding.
- (e) Many municipalities would find difficulty in raising money to pay for works of distribution or for extending same. Some have indeed reached the limits of their borrowing powers. Such municipalities must go without electric service unless the State advances the money, either direct to the council, or to a body such as the Commission. It is public money in any case, and it is likely that the responsibility for its proper application and due repayment can be better discharged by a large authority than by numerous councils acting independently.
- (f) Among the most important requirements of efficient electric service are its expansibility and reliability. No matter how far-seeing the generating authority may be with regard to the extension of the capacity of the system to meet the possible demands upon it, nor how reliable the supply system may have been made, its efforts in those directions may be nullified by failure on the part of the distributing authority to properly provide for the growth of business, or to safeguard the continuity of the supply to the consumer. The difficulties that will arise if every municipal council were to be a separate and independent distributing authority are surely only too obvious.
- (g) A generating authority is vitally concerned in the development of electrical markets and the cheapening of the supply to the consumers. These can be brought about only by active propaganda work in the distribution area and by careful study of the individual requirements of the various classes of consumers, with a view to improving the general load factor of the district and other conditions affecting the cost of supply. These desiderata can be achieved only by direct contact with the ultimate consumers, *i.e.*, by canvass and by direct negotiation. A shire council acting as a distributor only, and not allowed to make profits out of the supply for alleviation of general rates, has not the incentive to become vitally interested in such matters, and, therefore, is disposed to rest satisfied if its ordinary and immediate requirements are met. It is likely to resent any contact between its retail customers and an outside generating authority.

7. The consideration of a specific example will serve to illustrate on broad lines the principle that the process of retail distribution of electricity is not properly a purely local function.

The scheme, a forecast of which has recently been submitted to the Government, for the service of the North-East and the Goulburn Valley covers a territory which embraces twenty-eight separate municipalities. The reticulation of this territory has been and must be laid out without the slightest reference to municipal boundaries, being in this respect closely analogous to the layout of railways, water-channels, main roads and telegraphs, whose correct location demands compliance with scientific rules and technical factors. The whole system of electric transmission lines (trunk feeders and sub-trunk feeders) is a single system, requiring a unified control. To turn over the retail distribution in such a territory to the independent management of twenty-eight separate local bodies would bring about a quite needless multiplication and overlapping of effort; a wide variation in the standard of efficiency practised in regard both to administration, operation, and maintenance; wide diversities of rates, charges, and conditions of supply on different sides of intershire boundaries; friction between shires wherever their interests are in conflict; and discontent among customers. But more than this: the layout of the distribution lines will frequently involve the desirability of serving a portion of say Shire "A" from sub-stations or feeder lines situated in the territory of another Shire "B" instead of from the more remote sources of supply available in Shire "A." Similar probable complications would abound. In the opinion of the Commission it is indispensable that the control of the whole of the low-tension distribution of such a large territory should be in the hands of a single authority, which can apply a uniform policy, a uniform standard, and a uniform administration throughout.

8. The most weighty precedent in the question under discussion is that of the Ontario Commission. This body nominally acts as agent of and on behalf of the municipalities throughout; but, in point of fact, it is the Commission itself, and not the municipalities, which, in the case of rural supplies, takes all executive action of every kind whatsoever upon proper guarantees being given by the consumers and municipalities. It is the practice of that Commission, apart from generating electricity and transmitting it at high voltage, to construct, finance and operate the whole of the low-voltage reticulation of the rural municipal areas. It maintains the works, reads the meters, collects the revenues, and finalizes the whole procedure of electric supply. It is only after all this work has been done that the Ontario Commission once a year renders an account of its operations to the municipalities.

Again, in New Zealand the Public Works Department is not only a generating authority, but also a distributing agency on a large scale. While it sells bulk energy to a number of municipal councils, it is perfectly free to deal direct with industrial consumers, with tramways, and the like. That is, it sells energy both in bulk and retail.

Coming nearer home, we find in Tasmania the State Hydro-Electric Department, a body created by the Government to develop the hydro-electric resources of the State for the benefit of industry, operating not only as the generating and transmitting authority, but also as the sole retail distributing authority in the municipal districts of Hobart and suburbs.

9. This Commission considers, nevertheless, that due attention should be called to arguments which can be used on the other side.

In the first place, there is the financial question. If the Commission were to undertake retail supply, then in course of time considerable additional public funds must be made available for its use for such a purpose. Such funds must, however, be found in any case, and whether the work is financed by the State or by the locality the expenditure will, either way, be a charge upon the people of the locality, and reflected in the charge for giving them an electric service.

In the second place, there is a strong public feeling in favour of local autonomy; in other words, there is the psychological as distinct from the technical aspect of the problem. The Commission does not in any way minimise the arguments that may be used in favour of divided as against centralized control, so long as the principle of large distribution areas is recognised. Nor does the Commission wish to discount the ethical advantage of divided public responsibility of large expenditures and the benefits which may be derived from various local authorities, acting on the advice of the Commission, emulating each other to give the best service.

It is, of course, for Parliament to say how much weight is to be attached to this consideration, and to what extent technical efficiency and best economy should be sacrificed in order to favour and foster the ideals of local control of what are regarded as local affairs, but which are not really so.

10. The advent in the near future of a system, entirely new to this State, of transmitting electric energy through long distances for the simultaneous service of numerous districts and localities widely separated and widely differing in their needs, brings about an entirely new situation which, in the view of the Commission, calls for an early solution and for the adoption of a sound, far-seeing, comprehensive and clear-cut policy.

11. The Commission may fairly be required to indicate how a policy of general control could be given effect to in practice. This matter has also received consideration. The Commission would divide up the State into a series of electrical districts, with special reference to the various separate transmission schemes. These transmission schemes are quite definitely separable, with reference to the source of supply and to the areas traversed and fed by the main power lines and offshoots from same. Thus the Western District from Geelong to Port Fairy would form a well-defined electrical district; East Gippsland from Morwell to Bairnsdale another; the north from Benalla to Echuca and Wodonga still another; and so on. In each such district there would be a superintendent, whose staff would perform all the functions of maintenance, operation, and administration, with full local powers, subject only to the central control of the Commission in matters of general policy.

12. In the event, however, of it being thought by Parliament that the Commission should be altogether excluded from the function of retail distribution, the Commission strongly recommends that such a function should, even under such circumstances, cease to be regarded as a local concern. It would still be imperative to treat each separate transmission scheme as a single scheme requiring a unified control centred in some local authority created for the purpose. In other words, instead of there being superintendents acting under the Commission there would have to be local power, boards or trusts, either nominated by the State or elected by the districts, which would be given borrowing powers and would have independent control of the electrical affairs of the district so far as relates to low-tension distribution.

It must be made clear, however, that even under such an arrangement, the whole of all the systems of high-tension reticulation throughout the State must remain, as at present, under the sole control of the State Electricity Commission.

13. The Government and Parliament have already definitely adopted the policy of the full development of a State service of electric supply throughout the State, except only as regards low-tension or retail distribution in the case of those orders which were still in force at the end of 1918. The immediate question is whether, as an ultimate objective, that policy should be extended to cover every part of the State. If decided in the affirmative it would nevertheless take many years to carry such a policy into complete effect. Private franchises would have to continue until rights of compulsory acquisition mature. Municipal franchises would not, in every case, be readily yielded up. The conversion of public opinion in favour of general as against local control may be of slow growth. In the meantime it is not suggested that in the case of existing orders there should be anything in the nature of a wholesale revocation by law, or of a wholesale compulsory acquisition by the State. The fact is that many municipalities at present actually favour and desire such acquisition; and others will probably follow suit when, by experience, they more fully realize the anomalies involved in an attempt to apply past practice to the new conditions created by schemes of transmitted energy.

14. If Parliament finds itself generally favorable to a policy such as has been outlined, it will be for the Commission to take into consideration, in minuter detail, the steps necessary to be taken during the transition period between the present separated and the future co-ordinated and unified system of control. Such transition period may well last ten years and upwards, during which the ramifications of transmission schemes will be pushed further and further afield. No such scheme of general control can be put into force in a single operation. It must be effected stage by stage as the need arises and as favorable opportunities offer. This progressive approach to the final objective is no evil, so long as that objective is clearly envisaged from the outset and all intermediate steps are made to harmonise with it.

State Electricity Commission,

31st October, 1922.