



**RESPONSE TO THE ENERGY CONSULTATIVE COMMITTEE
TERMS OF REFERENCE**

5 March 2008

Introduction

On 10 December 2007 the NSW government announced that it would adopt the recommendations of the *Owen Inquiry into Electricity Supply in New South Wales*, and sell the retail state owned corporations of Energy Australia, Integral Energy and Country Energy, and lease the state owned generation corporations Delta Electricity, Eraring Energy and Macquarie Generation.

In making this announcement the Premier also established the Energy Consultative Reference Committee. This committee was established in accordance with the policy of the NSW Branch of the Australian Labor Party (ALP). That policy states that the reference committee must test any proposed state owned asset sale on its merits according to the following criteria:

1. The direct and indirect social usefulness of a public asset, service or utility.
2. The original purpose of the enterprise and whether that purpose remains valid, is being appropriately addressed through existing arrangements or could be satisfied by alternative arrangements.
3. Where the original purpose (as discussed above) has become redundant, the other social, redistributive or regulatory roles that have evolved must be taken into account.
4. The retention value of the enterprise measured against its sale value. Any calculation of retention value should incorporate both commercial and non-commercial functions.
5. The current structure of the market place (i.e. Monopoly, oligopoly or competitive) and the public sector's role as a competitor and/or regulator in that market.
6. The impact on specific groups or regional areas especially those groups or areas that are already disadvantaged. The assessment should include all factors including the real costs of compensation and/or support that will be needed if the role of the public sector were to change.
7. The impact on employment, skills, training and conditions and the protection of the existing workforce and/or the reform of industrial relations practices in any new enterprise or project.
8. The existing competing demands on the NSW public sector and existing budgetary constraints and/or the alternative sources of funds for public sector investment.
9. The current environmental impact and the need to continue to enhance environmental protection.

10. The administrative economies of scale and coordination that is facilitated by public ownership and control.
11. Appropriate weighting of long-term as well as short to medium term considerations; and
12. Where the money is going, i.e. ensuring that the proceeds of the disposal of assets are responsibly directed to priority public capital needs.

The energy unions in NSW were represented on this committee by Matt Thistlethwaite, Deputy Assistant Secretary, Unions NSW, Ben Kruse, State Secretary, United Services Union and Steve Turner, Assistant Secretary, Public Service Association.

In the following pages, the union representatives on the committee make an assessment of the proposal against the criteria, based on the evidence put to the committee through submissions to the Owen Inquiry, submissions to this committee, and the views of certain persons who appeared before the committee, including NSW government representatives. In some cases there was insufficient information supplied to the committee for us to make an informed assessment, for example it is difficult to assess the retention versus sale value when very little information was supplied regarding the value of the assets or their potential sale values.

Based on an assessment of this information against the 12 criteria the union representatives are of the view that the policy announcement made by the Premier on 10 December 2007 does not meet the criteria overall and is therefore not consistent with the NSW ALP policy and should not proceed.

The reasons why we have adopted this view are outlined below.

CRITERION 1:

The direct and indirect social usefulness of a public asset, service or utility

There are a number of factors that help define the social usefulness of a public asset and service. In relation to electricity these are outlined below. It is disappointing that in considering the social usefulness of electricity retail and generation, the NSW Government has ignored issue of access that are essential to just governance.

Economic

In terms of the economic usefulness of public ownership of electricity for the state, NSW electricity assets (not including Transgrid) currently account for 21% of total infrastructure assets, a significant aspect of the State's financial security. The generators alone contribute over \$692.6 million¹ to NSW state revenue.

The economic usefulness for individuals of public ownership of electricity assets is twofold. Firstly, public ownership allows greater influence over price. The argument has been made that policy supports price outcome but whilst policy can determine what percentages of the price reflect the different regulations, for example 40% of overall price is wholesale charges, it can't regulate the real cost of electricity and how much of a mark-up is imposed when this is passed on to the consumer if electricity is subject to free market values. Furthermore, according to the Australian Bureau of Statistics², the amount spent on electricity in NSW is lower than that spent in Victoria and South Australia where electricity assets have been privatised.

The possibility of the NSW government indemnifying potential buyers and lessors for the costs associated with the introduction of a carbon trading scheme would also see a loss for NSW taxpayers as they will bear the cost of such an indemnity yet the capacity to recover the cost via returns from state owned electricity assets is diminished through the sale process.

Environmental

The natural influence of market sources means that companies will invest in whatever energy source is the cheapest at the time. In comparison the Government has a recognised social responsibility, and a long term economic imperative to build new base-load generation using only zero and low emission generation³. Environmental organisations have criticised the privatisation proposal for failing to review the timing and feasibility of technologies and measures available both nationally and internationally that reduce greenhouse gas emissions. A conclusion that can be drawn from this is that any new developments should wait until environmentally sustainable technologies become more readily available. In particular, there needs to be greater clarity about carbon trading schemes and whether the NSW Government plans to indemnify potential purchasers against such costs.

¹ NSW State Government Budget Papers 2007-2008

² Australian Bureau of Statistics- Release 6535.0.55.001 Household Expenditure Survey, Australia: Detailed Expenditure Items.

³ *Submission to the Owen Inquiry into Electricity Supply in NSW*, Business Council for Sustainable Energy, Sydney, 2007.

The NSW Government issued a media release on the 10th of December 2007 to explain their position on energy efficiency. In order to meet the NSW Government's commitment to reducing greenhouse gas emissions, emission output from existing generators will need to fall. A proposal put forth by the Business Council for Sustainable Energy suggests that a national scheme to roll out smart meters would discourage excessive use of air-conditioners and other non-essential household appliances⁴. In considering current usage of electricity it is important to note that the projections in the Owen Report have already been superseded by the federal government ratifying Kyoto, the expected Federal Mandatory Renewable Energy Targets and other new renewable energy projects. Furthermore the data used in the Owen Report fails to adequately incorporate the impact of existing energy efficiency measures (like GGAS, BASIX and mandatory efficiency standards for appliances)⁵. These were issues to which Professor Anthony Owen had no response in his evidence to the committee.

Access

It is essential that the importance of access issues around publicly owned electricity is acknowledged. There are the obvious issues of providing for marginalised customers that have been raised by the committee, however consideration also needs to be given to hidden fees and charges such as those associated with the Retailer of Last Resort scheme so that access to continuous electricity supply is the domain of everyone and not just those that can afford it. The issue of "retailer of Last Resort" schemes and the prohibitive costs of these was explored in the evidence of Clare Petre, NSW Energy and Water Ombudsman.

The second issue of concern in terms of access is the level of accountability provided by public ownership of electricity assets. The ballot box, parliamentary processes and enforceable public sector behaviour codes all mean that the public can currently hold their providers of all aspects of electricity provision to due account for their actions. The issue of access to accountability measures is particularly important in today's climate with the phasing out of the Electricity Tariff Equalisation Fund and the upcoming introduction of a carbon emissions trading scheme.

Employment and Training opportunities

It is disappointing that the government has placed so little emphasis on apprenticeship schemes. In NSW, generation apprenticeship numbers have been close to 300 since 1999. The unions are concerned that the strong commitment to employing trades apprentices in public electricity will not be maintained by private sector operators. Such a scenario developed after privatisation in Victoria. This may see a reduction in the bank of generation specific trade skills. Further, the commitment by the NSW government to maintain apprentice numbers in the transmission and distribution sectors is diminished by the view that apprentice numbers are already remarkably high.

The other social usefulness of publicly owned electricity assets is that there is a political incentive to employ Australian workers. In comparison, one need only look at the situation

⁴ *Submission to the Owen Inquiry into Electricity Supply in NSW*, Business Council for Sustainable Energy, Sydney, 2007.

⁵ *Submission to the Owen Inquiry into Electricity Supply in NSW*, Business Council for Sustainable Energy, Sydney, 2007.

with a privatised industry in Victoria where just last year, hundreds of Australian jobs were sent offshore to India by Tru Energy.

Whilst there has been some acknowledgement of the aspects required to meet criterion 1, the government has ignored key elements of the social usefulness in regards to accountability and so forth. The result is that it is difficult to determine whether they have met criterion 1.

CRITERION 2:

The original purpose of the enterprise and whether that purpose remains valid is being appropriately addressed through existing arrangements or could be satisfied by alternative arrangements

The Electricity Commission (Elcom) was established in May 1950 after a period of blackouts due to unreliable supply. Elcom was established to eliminate power shortages by planning additional generating stations and improved transmission facilities. In an era when NSW will require additional baseload electricity by 2013/14⁶ to ensure reliability the original purpose of state owned electricity remains as valid as ever.

The unions believe that the governments plan will not deliver extra baseload capacity in NSW. In fact at page 18 of the Morgan- Stanley section of the Owen Report it is recommended that:

Under no circumstances would we recommend fixed obligations compelling specific generation investment by private sector buyers of assets acquired in any sale process.

The unions are not confident that the governments plan will secure the state's future electricity demands. We believe that the private sector will only build peaking plants in future and supply electricity into the grid at a time when the wholesale price is high. This is during periods of high demand. This scenario has developed in Victoria, where there has been no new baseload investment since privatisation.

Electricity has a multitude of uses and is now integral to daily life. It is easy to speak both in abstract historical and philosophical terms about the purpose of electricity in people's daily lives. However, this is not quantifiable and therefore it is difficult to establish whether the purpose of publicly owned electricity remains valid. In order to facilitate objective discussion about how to best meet NSW electricity needs, the following issues outlining these multiple purposes are offered. They encompass the multiple roles that the NSW community play as consumers, workers and owners of NSW electricity assets. These issues are:

- The economic purpose that electricity plays in the lives of individuals in enabling them to conduct their business. The economic purpose it assumes for sections of the workforce as their occupation and the economic purpose of electricity as a key part of NSW infrastructure assets.
- The purpose of electricity regimes in achieving environmental sustainability for the community as a whole.

⁶ Owen Inquiry into Electricity Supply in NSW 2007- page 1

- The purpose of public ownership in achieving greater accountability for the NSW community in how electricity is run.
- The purpose of electricity assets as a source of employment and training opportunities.

As is shown in Criterion One, public ownership enhances the usefulness of electricity assets in light of each of these areas. Therefore public ownership is the most appropriate way of fulfilling the purpose of these assets.

Whilst there is an agreement that the purpose of electricity provision still exists today, the government has assumed a highly restricted definition of that purpose which ignores the multiple roles the people of NSW have in relation to electricity. This means that the government do not meet the requirement to prove that these purposes could be met through alternative arrangements. In an era when NSW will require extra base load capacity by 3013/14 it is irresponsible for the government to leave such decisions to the private sector. Therefore criterion 2 is not met.

CRITERION 3:

Where the original purpose of the enterprise has become redundant, the other social, redistributive or regulatory roles that have evolved must be taken into account

The original purpose of electricity as outlined above remains valid. The NSW Government has expressed beliefs about how the abstract purposes they have suggested are best met. Unfortunately for the people of NSW, they rely on a series of unproven assumptions to support this point. The statement is made that *“the leasing of the generators and sale of the retail businesses will improve their operational efficiency”*⁷ yet at no time is any reasoning given for efficiency measures that may be undertaken by the private sector that aren’t available to the public sector. Similarly, they place great faith in the regulatory mechanisms available to NEMMCO without explaining who would bear the significant cost involved in these. This cost could be financial (such as the government being forced to invest in new base load generation because the private sector has not). Alternately, it could be social with “load shedding” being introduced in certain areas, resulting in blackouts.

The original purpose of electricity as outlined above remains valid. The NSW Government has expressed beliefs about how the abstract purposes they have expressed are best met. Unfortunately for the people of NSW, they rely on a series of unproven, costly assumptions to support this point. Criterion 3 has not been met.

⁷ NSW State Government’s Response to the Unsworth Energy Consultative Reference Committee Terms of Reference, 2008,p.18.

CRITERION 4:

The retention value of the enterprise measured against its sale value. Any calculation of retention value should incorporate both commercial and non-commercial functions.

Obviously large increases in debt in NSW can increase the risk to the state – certainly in the short term. But when invested in assets that earn a commercial return they are unlikely to compromise total operating returns (with the possible exception of the very short term when assets are being built) and they can be expected to strengthen operating returns immediately when the assets commence operation.

It is for this reason that Tony Harris, the former NSW Auditor General observed recently that

A large additional investment in NSW's generation and distribution sectors is pressing. But even with recent interest rate increases, needed investments can earn sufficient gross profit to service borrowings. And such borrowings, made outside of the general government sector, would not affect the government's budget. Still less would they imperil the state's AAA status.⁸

Indeed as Mr Harris pointed out, the State's aggressive dividend policies have ensured that it has received exceptional commercial returns from its electricity assets.⁹

Moreover, while retaining the electricity industry in public hands would obviously increase the gross debt burden on the state, greater investment in infrastructure generally would have a very positive impact on some of the other criteria by which credit ratings are assessed.

Providing it were invested according to sound financial principles, it would:

1. increase productivity and economic growth in NSW
2. reduce off balance sheet liabilities – particularly by reducing exposure to PPP type liabilities and
3. if investment were in assets with yielded commercial returns which were likely to exceed the cost of capital, it would, over time improve financial flexibility net worth, and budget performance on the operating account.

These benefits would come through relatively quickly as infrastructure was built as in the case of (1) and (2) and over time regarding (3). In fact the Owen Report argues that some of the borrowing to fund new investments in the electricity sector would be on budget. But this is in return for equity in an asset which pays dividends back to the state and which would appreciate through time.

⁸ Australian Financial Review, 19th February, 2008.

⁹ Using Productivity Commission data, the Audit Office reported that NSW generators, transmitters and distributors collectively recorded a 15 per cent return on equity for 2006 and 2007. In the last three financial years, NSW's three electricity generating businesses recorded an average pre-tax annual return on equity of nearly 20 per cent. Earnings on assets were around 10 per cent. These are sterling returns for humdrum utility businesses

The Owen Report appears to downplay the benefits of keeping the industry in public hands and to emphasise risks that would seem relatively manageable given NSW's strong balance sheet. Consider for instance the language it uses in discussing the relative cash flows involved in borrowing to invest in electricity assets. The Owen Report points out that the "[i]ncreased dividend and tax equivalent payments *should at least offset increased finance costs* as the Government should receive a return on its equity investment *at least equal to the Government's cost of debt*" (emphasis added) (p. 6-20). Thus the investment *improves* the bottom line – considered simply in operating terms.

The NSW Government is highly dismissive of the non-commercial retention value of the assets, suggesting that "*such functions are generally determined by Government policy*"¹⁰. However, what this fails to acknowledge is the incentives to promote and practice the best policy in this area that do not exist for private operators.

The economics used to assess the retention value against the sale values has been disputed by a number of well qualified economic practitioners, including those with public service experience. The government's response has also failed to examine the non commercial functions. Therefore criterion 4 has not been met.

CRITERION 5:

The current structure of the market place and the public sector's role as a competitor and/or regulator in that market

It is acknowledged that in the area of generation that there is a monopoly by the state owned companies. However this is not a situation that is rectified by privatisation. Indeed in Victoria, generation capacity is still held by three major companies and 3 minor companies¹¹ (many of which have commercial relationships with each other). Similarly in retail, market forces in Victoria have not led to competition. Instead, 87% of the market is controlled by 3 major companies¹².

The increasingly nationalised nature of electricity assets through the National Electricity Market (NEM) is well understood. However the strength of the NEM is dependent upon the competition and regulation regimes in the states that subscribe to it. Therefore, the privatisation of electricity is problematic as it has been shown to have minimal impact on competition whilst sacrificing the social imperatives that are driven by public ownership.

The unions are concerned that further market concentration will result in a few large corporations owning the majority of the states, and indeed nation's electricity assets. Whilst the government has promised to maintain regulation until sufficient competition exists this does not offer much re-assurance for consumers. We can foresee a market developing in electricity where such large corporations dominate the market and act in an uncompetitive

¹⁰ NSW State Government's Response to the Unsworth Energy Consultative Reference Committee Terms of Reference, 2008, p.27.

¹¹ <http://www.aer.gov.au/content/index.phtml/itemId/713232/fromItemId/656023> - accessed 02/02/08

¹² <http://www.aer.gov.au/content/index.phtml/itemId/713232/fromItemId/656023> - accessed 02/02/08

manner to force up prices. We do not wish to see a similar market structure to that in the petroleum, supermarket or banking industries develop in electricity.

The government's assertion that price and social outcomes can be met through a reliance on "market forces" has been shown to be untrue in other states where electricity assets have been privatised. Therefore criterion 5 has not been met.

CRITERION 6:

The impact on specific groups or regional areas especially those groups or areas that are already disadvantaged. The assessment should include all factors such as the real costs of compensation and/or support that will be needed if the role of the public sector were to change

There are several groups of consumers who will be significantly disadvantaged by the privatisation of NSW electricity assets. Some remedies for these consumers regardless of whether the privatisation proposal goes ahead have been discussed whilst others haven't.

The experience in Victoria has been the impacts of electricity pricing disproportionately affect low income earners. Indeed in March 2004 the Victorian Council of Social Services warned that 1 in 4 households risked disconnection of power when the state became fully deregulated¹³. Furthermore a South Australian study found that whilst electricity prices had risen significantly above the CPI, Commonwealth assistance was indexed to the CPI, meaning that those on Centrelink benefits were being further marginalised¹⁴.

There are also concerns about the impact of the proposed privatisation on rural and regional communities. Consideration needs to be of the issue of jobs leaving the regions to be centralised or even outsourced as has been the case in Victoria. However, community impacts also need to be understood. A key example is what happened in the LaTrobe Valley in Victoria where the power station was privatised, jobs were lost and house prices dropped dramatically. The impact of this was that families who needed to leave the region to look for new employment simply couldn't afford to. This was explored in some depth in the evidence of Michael Rizzo, Assistant Secretary of the Australian Services Union, Victorian Authorities and Services Branch.

Criterion 6 has not been met as the government has failed to assess the impact on low income earners. Furthermore, there would need to be a significant increase in how Centrelink benefits are paid to minimise the impact on pensioners, an outcome outside the control of any state government. The government has also neglected the affect of privatisation on regional and rural communities which has been shown to be significant in other states.

¹³ <http://www.choiceextra.com.au/images/pdfs/0503Energy.pdf> -accessed 01/02/08

¹⁴ <http://www.choiceextra.com.au/images/pdfs/0503Energy.pdf> -accessed 01/02/08

CRITERION 7:

The impact on employees, skills, training and conditions and the protection of the existing workforce and/or the reform of industrial relations practices in any new enterprise project

There are a number of issues around employment that make privatisation of electricity assets a concern. Firstly all the documentation provided by the NSW Government in relation to workers entitlements give significantly less guarantees for retail employees, particularly those working in call centres. There is also justifiable concern about the contracting out and off-shoring of retail functions as this has occurred in other states. This has an impact not only on the workforce but also consumers whose details and contacts are then placed outside of the accountability measures available in Australia.

Regardless of the unions' opposition to the sale of retail and the leasing of the electricity generators there are a number of significant core questions relating to employment protection. These include the following:

- Whereas a five year employment protection period is guaranteed for generator employees no employment protection period at all is guaranteed for retail sector employees.
- The provisions of the proposed “transitional service agreements” (TSAs) are extremely uncertain. TSAs appear to be purely commercial arrangements between the state vendor/lessor and private purchaser/lessee. The period of a TSA, which may be up to three years, does not attract genuine employment protection.
- Many of the employment protections are expressed in extremely uncertain language. For example, the generator staff are guaranteed preservation of award/agreement conditions to the “maximum extent”. For retail staff there is a provision that “most” retail staff would stay in their current jobs for “up to” three years. The employment protections currently described by the government remain uncertain. Not only do the employment protections require significant improvement, the protections would require clarification by way of statute.
- Some committee members have suggested that employment protection is available for employees in regional areas. The proposal provides no employment protection for retail staff transferring to the private sector. For those retail staff remaining in the employ of their state owned distributor there is no guarantee against forced redundancy and nor is there any guarantee concerning the maintenance of core employment numbers in regional areas.

The longest period of guarantee for workers finishes at the 5 year mark¹⁵. The question then becomes around what happens after 5 years for affected workers. This is pertinent when consideration is given to the age of the generation workforce in particular, many of whom will at that time be of an age where new employment and training opportunities are notoriously difficult. There is also concern that retraining and redeployment opportunities, should they be available at all, are distributed equitably.

¹⁵ Unsworth Energy Consultative Reference Committee Briefing Paper, 2008.

In NSW generation apprenticeship numbers have been close to 300 since 1999. In comparison, the Victorian experience after privatisation has been that numbers of apprenticeships decline substantially. This suggests that public ownership is useful for addressing the nation's skill shortage.

Criterion 7 has not been met. Firstly, all the documentation provided by the NSW Government in relation to workers entitlements give significantly less guarantees for retail employees, particularly those working in call centres. There is also justifiable concern about the contracting out and off-shoring of retail functions as this has occurred in other states. The longest period of guarantee for workers finishes at the 5 year mark. Questions then are raised around what happens after 5 years for affected workers.

CRITERION 8:

The existing competing demands on the NSW public sector and existing budgetary constraints and/or the alternative sources of funds for public sector investment

It is acknowledged that any government is forced to make difficult choices in how they allocate their budget. However, just as an individual would not sell their house to pay for their car, a government that sells a profit making asset to fund assets that will always operate at a loss is short-sighted at best. The revenue from generators alone last year was

	Assets 30 June 2006 \$m	Equity 30 June 2006 \$m	Net Profit Y/E June 2007 \$m	Return on Assets %	Return on Equity %
Generators					
Eraring	1,571.4	991.8	207.9	13.2	21.0
Macquarie	2,972.1	1,003.5	203.7	9.5	28.3
Delta	<u>2,148.4</u>	<u>730.0</u>	<u>201.0</u>	<u>9.4</u>	<u>27.5</u>
Total	6,691.9	2,725.3	692.6	10.3	25.4

¹⁶

This is a sizeable percentage of the NSW Budget that would be lost in the long term for a momentary gain.

The NSW Government can borrow nearly double what it currently owes without affecting its Triple A credit rating¹⁷. This means that it can fund necessary infrastructure projects, keep public ownership of electricity assets and use some of the returns from those assets to continue paying off its debt.

The other issue around the funding of any new base load plant is that the privatisation of electricity assets in no way creates a responsibility or guarantee that the private sector invest in new generation when it becomes necessary. Indeed, as has been shown both domestically and internationally, there are price incentives for the private sector to keep

¹⁶ *Submission to the Unsworth Energy Consultative Reference Committee*, Professor Bob Walker, Sydney, 2008.

¹⁷ *Verbal submission to the Unsworth Energy Consultative Reference Committee*, Dr Nicholas Gruen, Sydney, 2008.

electricity as a limited commodity. In Victoria, there has been no new investment in base load generators since privatisation¹⁸. This point was raised by Ron Harwick from Visy as well as Associate Professor Hugh Outhred from the Centre for Energy and Environmental Markets in their respective evidence to the committee.

The return on electricity assets is a significant part of the NSW budget which we would be lost to all public sector portfolios, should the assets be sold or leased. The NSW Government can borrow nearly double what it currently owes without impacting on its Triple A credit rating. The selling of electricity assets in no way guarantees the building of new base load generators. Therefore criterion 8 has not been met.

CRITERION 9:

The current environmental impact and the need to continue to enhance environmental protection

There is a high level of uncertainty around thermal efficiencies in new plants and the recent standardisation of the Clean Air Plant and Equipment Regulation that in itself would support waiting for greater understanding of the impacts of these regimes before deciding what role ownership would have in most effectively implementing them. This uncertainty also applies to carbon liabilities where the cost of potential government indemnities against permit price for the private sector could significantly alter any short term financial gains made by the selling of NSW electricity assets.

There has also been minimal consideration of the impact of privatisation on energy use management. The natural influence of the market means that companies will encourage the greatest use of their product in order to increase profits. An example of this was AGL in Victoria offering domestic customers air conditioners on 12 month interest free loans, thus increasing electricity consumption¹⁹. In comparison the Government has a recognised social responsibility, and a long term economic imperative to encourage responsible consumption.

There is a high level of uncertainty in relation to new environmental standards that would significantly impact upon the selling price of the electricity assets. Furthermore the natural influence of the private market is to encourage greater consumption of products despite the environmental need for use management. Therefore criterion 9 has not been met.

¹⁸ Owen Inquiry into Electricity Supply in NSW, Morgan Stanley, Sydney, 2007, p.48.

¹⁹ Sharam, A. "The Victorian Experience: Customer Perspectives", in G Hodge, V Sands, D Hayward & D Scott (eds), Power Progress: An Audit of Australia's Electricity Reform Experiment, Australian Scholarly Publishing, Melbourne.2004, pp. 147.

CRITERION 10:**The administrative economies of scale and coordination that is facilitated by public ownership and control**

In order to assess the coordination that occurs between state owned electricity assets more information is still needed on “spares agreements”.

Until the requested information is provided, this criterion remains unable to be evaluated.

CRITERION 11:**Appropriate weighting of long term as well as short to medium term considerations**

The Table below shows that in 2006-07, the state-owned electricity industry contributed around \$1.1 billion to the NSW Budget through dividends and tax equivalent payments; with an additional \$184 million coming from a return of capital, making a total of nearly \$1.3 billion.

NSW Electricity Industry Contributions to the State Budget 2006-07

	Dividends Paid	Tax Paid	Capital Return	TOTAL
	\$m	\$m	\$m	\$m
Generators				
Eraring	41.3	43.6	184.0	
Macquarie	130.0	28.4	0.0	
Delta	<u>131.6</u>	<u>47.4</u>	<u>0.0</u>	
Total	303.0	119.4	184.0	606.4

Source: Annual Reports of the nominated agencies for the year ended 30 June 2007.

These contributions would be lost if the generators were leased. Offsetting those losses would be lease payments and possible returns from the reinvestment of the proceeds. However it is difficult to contemplate that the financial returns from reinvestment in other forms of infrastructure would exceed those currently being earned from the electricity industry.

In regards to the long term consideration of public ownership of electricity for the state, NSW electricity assets (not including Transgrid) currently account for 21% of total infrastructure assets, a significant aspect of the State’s financial security, and a sizeable medium to long term loss. Public ownership also allows greater influence over price. The argument has been made that policy supports price outcome but whilst policy can

determine what percentages of the price reflect the different regulations, for example 40% of overall price is wholesale charges it can't regulate the real cost of electricity and how much of a mark-up is imposed when this is passed on to the consumer if electricity is subject to free market values.

The natural influence of market sources means that companies will invest in whatever energy source is the cheapest at the time. In comparison the Government has a recognised social responsibility, and a long term economic imperative to build a new base-load generator using only zero and low emission generation. A conclusion that can be drawn from this is that in order to assess the medium to long term gains, any new developments must wait until environmentally sustainable technologies become more readily available. In particular, there needs to be greater clarity about carbon trading schemes and whether the NSW Government plans to indemnify potential purchasers against such costs²⁰.

It is essential that the importance of access issues around publicly owned electricity is acknowledged. There are the obvious issues of providing for marginalised customers that have been raised by the committee, however consideration also needs to be given to hidden fees so that access to continuous electricity supply is the domain of everyone and not the privilege of a few.

Another issue of medium to long term concern is the level of accountability provided by public ownership of electricity assets. The ballot box, parliamentary processes and enforceable public sector behaviour codes all mean that the public can currently hold their providers of all aspects of electricity provision to due account for their actions. This is especially relevant in NSW given that commitments were given by the Premier ruling out electricity privatisation before the last state election.

The other social usefulness of publicly owned electricity assets is that there is a political incentive to employ Australian workers and invest in apprentices. In comparison, one need only look at the situation with a privatised industry in Victoria where just last year, hundreds of Australian jobs were sent offshore to India.

Medium to long term economic, environmental, equity, accountability and employment issues have not been demonstrated to be considered therefore criterion 11 has not been met.

CRITERION 12:

Where the money is going (i.e. ensuring that the proceeds of the disposal of assets are responsibly directed to priority public capital needs)

There are several questions that still need to be answered about how the money will be spent, should the privatisation of NSW electricity assets proceed. The first two possible proposals outlined on page 54 of the *NSW State Government's Response to the Unsworth Energy Consultative Reference Committee Terms of Reference* fail to meet the requirement in Criteria 12 of the terms of reference that "*proceeds of disposal of assets are responsibly directed to priority capital needs*". Using the money to reduce debt and interest currently

²⁰ Nature Conservation Council of NSW Release- (21/01/08)

owed by the NSW State Government in no way goes towards improving any of the public sector portfolios that the government has identified as needing additional funds.

Furthermore, the investment of the net proceeds of the electricity sale into the NSW Intergenerational Fund is also problematic. Firstly, it requires the NSW community to sacrifice long term economic gains for short term results. Yet, if the proceeds are invested in the NSW Intergenerational Fund, the community won't see any possible gains for a number of years. Secondly, the investment of the funds does not meet Criteria 12 in that it does not direct the funds from the sale of these public assets towards priority public capital needs.

The Government's response is also not equitable in that, the possible projects identified by the government so far disproportionately favour metropolitan community members.

The proceeds of the proposed sale and lease of electricity assets are required to be *"responsibly directed to priority capital needs"*. None of the investment plans put forth by the government meet this requirement. Therefore criterion 12 has not been met.

Conclusion

Due to the reasons outlined above, the union representatives do not believe that the NSW Government's announced changes to the electricity industry is consistent with ALP policy regarding the sale of state owned assets.

The greatest social and economic benefit for the people of NSW is delivered by maintaining public ownership. The government's plan will not deliver the required base load capacity in a timely manner and will not secure the state's energy future as claimed. Privatisation will result in a loss to the state's net worth which will affect ability to borrow and fund future infrastructure needs. Further, privatisation in the current uncertain environment will see the state lose some of the potential sale value of the assets.

The people of NSW are understandably concerned by the government's announcement, and so is the union movement. There is an undercurrent of public opposition to privatisation of public assets for one simple reason- they do not generally deliver better outcomes for Australians. In every jurisdiction that electricity privatisation has occurred, there have been various problems and issues, but ultimately it appears that the public are worse off. We can foresee similar problems developing in NSW if the government proceeds with its proposal.