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SELLING OFF ELECTRICITY NETWORKS WILL GIVE NSW CHEAPER POWER BILLS

Unions are driving higher labour costs and will force management to use contractors

VINCE GRAHAM

LET'S start by busting the myth that public ownership has protected NSW families from inflated electricity bills. A Sydney family pays about \$800 a year for their electricity network charge — the cost of getting electricity from the generator to their home — to use five megawatt hours of electricity. That's \$200 a year more than a Melbourne family.

The NSW electricity networks are publicly owned and in Victoria they are owned and operated by the private sector.

It's the same story with costs.

Historically, NSW networks have capital investments double that of Victoria. Yet annual operating costs per customer in NSW are 60 per cent higher than Victoria. Higher operating costs and higher historical network investment are key factors driving regulated electricity charges paid by families and businesses in NSW.

Since July 2012 the three NSW electricity network businesses, Ausgrid, Essential Energy and Endeavour Energy, have implemented sweeping reforms under the NSW government reform program. The reforms have reined in the capital investment programs and halted years of double-digit price rises without compromising safety or reliability.

In two years, capital budgets have been reduced by \$2.2 billion. Double-digit increases in network charges from 2009 to 2012 have been replaced by more modest increases below CPI in July last year and July this year. Network charges, however, remain higher in NSW than Victoria.

Informed critics of the double-digit increases in NSW network charges point to "gold plating" of network investments as a primary cause of the unnecessary financial

burden placed on consumers. That is only a part of a more complex tapestry.

Electricity network revenues are regulated by the Australian Energy Regulator. The AER uses a "building block" approach to determine allowed revenue based on historic asset values and approved capital and operating programs forecast for a five-year period.

Historically this regulatory model has delivered higher regulated revenues per customer for electricity distribution in NSW compared with Victoria. Higher historic asset values and larger capital and operating programs have combined to deliver higher network charges to consumers.

Is public ownership a contributor to these higher network charges?

I don't believe the problem lies with our employees. The overwhelming majority of employees are dedicated, well trained and capable. There is a strong focus on safety, technical and engineering excellence and a commitment to serving the community.

There are, however, two systemic issues associated with public ownership that have contributed to higher capital and operating costs and higher charges for consumers.

First, private-sector owners have developed strong financial discipline in the development and delivery of their capital programs. Any capital investment proposal in any business must satisfy three basic questions. Is the investment necessary, is it designed to be the right standard and is the delivery model efficient? Applying these criteria has reduced the forward capital program for NSW electricity networks by more than

40 per cent.

The second systemic issue is deeply embedded in the public-sector culture. Public ownership, politically powerful unions and amenable management have all combined to deliver union agreements that drive higher labour costs and higher electricity bills.

We employ 12,000 NSW workers at a labour cost of more than \$1.5bn a year. Labour costs are about 70 per cent of our operating costs. Labour costs and labour productivity are important drivers of electricity network charges.

For many years under government ownership, NSW unions have exercised a "shadow management" role, entrenching unproductive and uncompetitive work practices.

Removing or rolling back these conditions is challenging given the Fair Work Act. Progressively and safely contracting out the maintenance and capital activities of NSW networks is one of the few means available to address these uncompetitive but legally binding union agreements.

Unions have spent the past two decades opposing a change of ownership of the "poles and wires" businesses in NSW. They have done this not to serve the interests of the community but to protect their labour monopoly.

The greatest threat to the long-term job security of current employees is not a potential change of ownership but the uncompetitive union agreements that inevitably will drive the safe outsourcing of existing jobs. Make no mistake, change is inevitable. Our employees deserve union leaders who will provide the leadership to sustain their jobs, not destroy them.

Some have expressed concern that changing ownership may lead

to private owners increasing electricity network charges. This is wrong on two counts. First, the clear evidence is that public ownership in NSW has led to higher network charges because of higher capital and operating costs. Second, all network operators, public or private are regulated by the Australian Energy Regulator.

Safely improving the productivity and competitiveness of the NSW electricity networks is in the interest of electricity consumers, employees and the community. In my experience, these interests are not well served by a continuation of public sector administration.

Vince Graham is the chief executive of Ausgrid, Endeavour Energy and Essential Energy.