

**Submission  
No 26**

## **INQUIRY INTO LEASING OF ELECTRICITY INFRASTRUCTURE**

**Organisation:** Electrical Trades Union NSW Branch

**Date received:** 14/05/2015

---

**SELECT COMMITTEE INQUIRY INTO  
THE LEASING OF ELECTRICITY  
INFRASTRUCTURE**



Submission by  
**Electrical Trades Union  
New South Wales Branch**

## Introduction

The Electrical Trades Union represents some 20,000 electricians and power industry workers across New South Wales and the Australian Capital Territory. The ETU is a campaigning union with a proud history of standing up for the people of NSW on the issue of electricity privatisation.

The ETU has opposed plans to privatise the NSW electricity industry dating back to 1997 including the privatisation of the electricity retail sector and more recently the privatisation of the publicly owned generators.

Research conducted over two decades has consistently shown that the overwhelming majority of the general public remain opposed to the privatisation of publicly owned electricity assets and other essential services such as water.

The ETU holds concerns over negative impacts resulting from privatisation including:

- Loss of recurrent income to the NSW Budget.
- Impact on employment across metropolitan and regional locations including future apprentice opportunities.
- Potential for higher consumer prices.
- Reduced reliability and slower emergency response times.
- Loss of control by the state of an essential service and monopoly.
- Failure of regulation and lack of accountability on private owners.
- Loss of social and community benefits.
- Impact on future technology, and
- The purchase of strategic essential services by foreign governments or foreign corporations.

The NSW Government has been careful in choosing their language when talking about electricity privatisation including their deceptive 49 per cent description.

The stark reality of the proposed transaction if it proceeds, will result in a majority stake in Ausgrid, Endeavour Energy (50.4 per cent of each) and 100 per cent of TransGrid being transferred to private owners, which may not be based in Australia.

Despite claims only 49 per cent of the sector will be privatised, the publicly owned companies subject to the transaction are the most profitable from the public stable and cover areas of NSW with the highest customer density. As a result this transaction will impact 76 per cent of all electricity customers in NSW or more than 2.57 million electricity account holders.

The government's claim that the transaction is a lease and not a sale is somewhat dubious.

In NSW 99 year leases are treated the same as a sale in accounting terms in that all financial responsibility including improvements and operating costs of the subject fall to the lessee. Additionally it is fair to say that those of us that are alive today will not be alive when this asset is set to be returned to the people of NSW highlighting the intergenerational impact of this proposal.

The ETU continues to hold serious concerns in relation to the proposed transaction and we urge all members of parliament, including those sitting on the select committee, to oppose the proposed lease of this essential service.

The ETU welcomes the opportunity to make this submission. The ETU remains committed to work with all members of parliament moving forward to ensure the best possible outcome is achieved for the people of NSW and that necessary protections exist for consumers and those working in the sector should the transaction proceed.

## **Economic Impacts**

There has been much research done around the economic impact that the privatisation of the NSW electricity sector will have on recurrent government revenue and the NSW budget in the short, medium and long term.

Research has shown that credit agencies place a high level of value on the recurrent income of government – even more so than the level of state debt which is weighted at approximately 10% when considering the state’s financial position.

It is a well-known fact that the NSW electricity network businesses have proved to be extremely valuable for NSW taxpayers. Over the past 15 years Ausgrid, Endeavour Energy, Essential Energy and TransGrid (and their predecessors) have contributed more than \$15.5 billion to NSW Treasury or an average of \$1 billion annually.

This income is used by NSW Treasury to support other government funding commitments including in the areas of health, education, transport and emergency services. It is also no secret that should the transaction proceed, the dividends from the network businesses will be significantly reduced or no longer available at all.

In addition to this loss of revenue the government intends to spend transaction proceeds on non-income generating infrastructure that will carry future budget liabilities through operational and maintenance costs.

The government claims that the future dividend stream will shrink, however The ETU believes that this can be offset through ongoing reforms and efficiency programs.

The ETU believes that the people of NSW would be better served through ongoing public ownership of the network businesses while realising economic gains through the merging of existing distribution businesses from three to two – a metropolitan based network and a regional network.

This alternative would build on more than \$3 billion in savings already delivered by frontline workers while improving projected dividend returns to government.

The governments proposed transaction will provide a one off cash injection to the NSW Government but the medium to long term intergenerational impact on the state budget will be negative.

Under this proposal the NSW Government is set to lose a significant amount of income which is currently used to fund other public services, while spending the proceeds on infrastructure that carries future budget liabilities.

## **Employment Impacts**

The NSW electricity network businesses currently employ more than 14,500 workers across NSW (Ausgrid – 5,116 / Endeavour Energy – 4,468 / Essential Energy – 3,979 / TransGrid – 1,074). The breakdown between metropolitan and regional employees is approximately 60% metro v 40% regional with more than 750 apprentices currently employed by the four network businesses.

The ETU is concerned about the likely significant impact on the number and location of jobs following any privatisation transaction. This concern is borne from past experience particularly in Victoria.

In 1997 a delegation of NSW MP's travelled to Victoria following the privatisation of that state's electricity networks. At the time the Latrobe Valley Express quoted the delegation as saying:

*“What we've found is the tremendous despair that's been caused by the loss of 8,000 jobs in a very short period of time in the valley.”*

- Latrobe Valley Express, 21 August 1997.

At the time the Victorian power company's employed some 10,000 workers and the job losses carried with them significant flow on effects including shop closures, small business closures, a rise in youth suicide, a rise in unemployment and an increase in divorce rates.

The use of compulsory and voluntary redundancy was widespread in Victoria in order to reduce employee numbers with many workers encouraged to use redundancy payments to establish their own business as contractors. This ultimately lead to financial ruin and

bankruptcy for many due to the high number of former employees competing for contract work.

The three network businesses exposed to the transaction in NSW currently employ more than 10,000 workers.

Some of the reasons behind job losses include aggressive strategies by private owners to recoup their investment in the shortest possible time period which leads to reductions in capital expenditure, reductions in maintenance programs, elimination of apprentice opportunities, closure and consolidation of depots, closure of head offices and contracting out of core work.

Just last week it was reported in Victoria that private contractors engaged to maintain the electricity network had flown in workers from the Philippines and employed these workers on illegal contracts which included the threat of sending workers home if they did not comply with their illegal employment contract. This type of behaviour can be expected in NSW should this transaction proceed.

Regional areas that will be impacted include: Cessnock, Maitland, Singleton, Muswellbrook, Merriwa, Tamworth, Orange, Yass, Wagga Wagga, Lithgow, Kandos, Moss Vale, Ulladulla and Nowra to name a few.

Metropolitan areas that will suffer include Newcastle & the Hunter Valley, Central Coast, Sydney & Western Sydney, Blue Mountains, Southern Highlands and the Illawarra.

Based on past experience the ETU predicts that the number of electricity workers currently employed by the NSW network business will be cut by more than 50% over the coming years through a range of private sector initiatives outlined earlier. We believe this will have severe flow on effects for electricity consumers in the areas of reliability, safety, after hour's response and customer service standards.

Should the committee resolve to support this transaction it is evident that a strong employment protection package is required as a condition on the purchaser. It is also necessary that any employment protection package is included in legislation with clear enforcement measures.

While the ETU opposes the lease transaction we also support Rev. the Hon. Fed Nile's five year employment guarantee should the transaction go ahead. We do however stress that any such employment package must apply to all employees and include the provision of no forced redundancies for the duration of the guarantee period.

The ETU also believes that additional employment protections are necessary and the union would be happy to meet with committee members to discuss these measures should the transaction proceed.

## Consumer Impacts

One of the primary reasons behind the high level of public opposition to privatisation is based on consumer impacts, namely price increases.

The notion of privatisation is not new and the public have had decades of experience when it comes to the privatisation of public assets. Past transactions have included the communications network, banks, insurers, critical infrastructure such as ports and airports, health services and elements of the education sector.

It is from this vast experience that the public have formed their opinion that the privatisation of public assets more often than not results in consumers paying more for products and services. It is from this vast experience that the public overwhelmingly oppose the privatisation of the NSW electricity networks.

Evidence has been provided to this committee based on a flawed EY report which is highly conditional and relies on selective data (refer to report qualifiers). This EY report clearly states on page six that:

*“Various factors can and do contribute to the discrepancy (between public & private networks) e.g. the starting position in respect of price levels, the age of the assets and therefore the need for investment, service standards etc. Not all of these controls are within the businesses’ control. For example, over the same period, the network in NSW and Queensland have invested heavily in their networks.”*

*“In contrast, the businesses in Victoria are approaching a stage in their life cycle which may require substantial further investment. South Australia may also have recently entered a similar stage in their investment life cycle as is the case in Victoria.”*

- EY report: Electricity network services long term trends in price and cost

In effect EY are saying that they are not comparing “apples with apples” in fact they are comparing a fully renovated network with an old run down asset needing major financial investment.

It is the lack of investment in the Victorian network that has been the subject of much attention in recent years as being the contributing factor to the catastrophic Victorian bushfire disaster which resulted in the loss of more than 170 lives.

Advocates of privatisation have relied on this flawed EY report to claim that network prices will be lower in NSW moving forward.

It is true that NSW network prices will fall in the immediate future but this is not the result of the pending privatisation transaction. Network prices are set to ease due to a reduction in network investment following expensive recent upgrades and the recent Australian Energy Regulator ruling which aims to reduce network costs regardless of ownership.

Further there is no guarantee under private ownership that any reduction in future network pricing will be passed on to consumers due to the fact that the Baird Government moved to fully deregulate the retail electricity market from 1 July, 2014. This means that there is no guarantee and no mechanism to force electricity retailers to pass on any future network price reduction.

Due to the level of misinformation and debate around electricity pricing, the ETU commissioned research to ask Victorian and South Australian electricity customers if they are better off or worse off following the privatisation of the electricity sector in those states, after all who better to ask than those people with direct experience.

The results were clear with 74 per cent of South Australians and 66 per cent of Victorians saying that they are worse off following electricity privatisation in those states.

Sixty five per cent of people in both states said that electricity was cheaper under government ownership while a whopping 73 per cent of Victorians and 71 per cent of South Australians said that they would support a government buy back of the electricity networks.

It is a fact reported by the Australian Energy Regulator that South Australia has the highest electricity prices in the country. It is also a fact reported by the regulator that electricity prices in NSW and Victoria are the same with the average bill for each state being \$2,000 p.a.

If this debate was truly about consumer electricity prices the government would act immediately by delivering the lowest possible prices to consumers through a publicly owned not for profit electricity network.

Many academics have reviewed past privatisation transactions, including in the electricity sector, finding that privatisation has failed to deliver on promises of lower prices and improved efficiencies.

The ETU believes that consumers are best served by public ownership and the high level of accountability that this model brings through the electoral system.

## **Regulation**

Privatisation advocates argue that regulation protect consumers following the privatisation of public assets. However when considering other regulated industry's such as the banking sector, insurance and petroleum it would be fair to say that consumers feel they do not get a fair deal. While these industries are regulated it is also fair to say that private owners



move to exploit potential loopholes in order to advance commercial interests. To this end it is difficult to conclude that consumers are adequately protected by regulation.

The ETU believes that the ACCC do not have a good record when it comes to successful consumer driven prosecutions.

An example of this was in June 2014 when the ACCC ruled that the privatisation of Macquarie Generation to AGL was not in the interest of NSW electricity consumers.

Despite this ruling AGL appealed the decision to the Australian Competition Tribunal who overturned the regulators decision despite the regulator's fears of reduced competition and potential to lead to higher prices.

It is also worthy to note that the Baird government ignored the regulators concerns and proceeded with the transaction despite saying they would not proceed if the regulator handed down any adverse findings. Safeguards and regulation are nice in theory but often fail consumers.

When assets, in particular natural monopolies, are publicly owned they are operated with a service imperative as opposed to a commercially driven profit motive. In this sense public ownership regularly delivers superior outcomes for consumers and tax payers as specially the area of essential services including electricity transmission and distribution.

## **Foreign Ownership**

Electricity networks in Victoria and South Australia are owned by foreign companies – including companies owned and operated by foreign governments.

Three major players dominate and control the privatised electricity networks in Victoria and South Australia through a web of complex share holdings. These companies are Cheung Kong Infrastructure (owned by Mr Li Ka-Shing), State Grid Corporation of China (owned by the Chinese Government) and Singapore Power (owned by the Singapore Government).

It is important that the committee look closely at the custom and practice of these companies as their corporate behaviour provides a good insight into what we can expect in NSW should this transaction proceed.

Hong Kong billionaire Mr Li Ka-Shing is the richest man in Asia and is currently fighting the Australian Tax Office over tax minimisation strategies used in Australia. It has also been reported that Mr Ka-Shing is currently in the process of shifting his \$30 billion business empire from Honk Kong to the Cayman Islands.

Jemena, APA and DUET – owners of Victorian network businesses and part of the complex off shore ownership structure have also been exposed for not paying the required level of company tax in Australia.

By far the worst offender is Spark Infrastructure, which is also foreign owned. The Australian tax office is pursuing Spark Infrastructure for \$700 million over a range of offences including over claiming rebates for electricity customers in Victoria. Spark Infrastructure also recently appeared third on a list of the top 27 company tax avoiders in Australia.

It has been reported that Spark Infrastructure had an average annual profit of \$101.9 million for the period 2004-2013 during which it paid no tax making it one of six corporations to pay no tax over the ten year period.

It is no secret that several foreign owners, including those above, are looking to buy the NSW electricity network businesses.

On top of this poor corporate history, these companies already have well established headquarters in other states, it would therefore be fair to assume that should they buy the NSW networks they will look for immediate cost savings including the amalgamation or closure of head offices or other common functions such as fault reporting, accounts, legal counsel, marketing, payroll, network design, human resources and executive management – all functions which currently employ NSW residents.

The ETU holds serious concerns over the potential impact of foreign ownership as the evidence available is damning.

## **Shareholdings & Remaining Electricity Assets**

Should members support this transaction we believe a number of strong restrictions and conditions must be imposed to protect consumers, business, taxpayers and workers.

The ETU would urge that alternatives be considered including a reduction of shares to be offered in Ausgrid and Endeavour Energy from 50.4% to 49% and a reduction in shares in TransGrid from 100% to 49% leaving the NSW Government as the major shareholder and controlling entity.

The ETU also believes that the remaining shares to be transferred to a new holding trust (including shares in Essential Energy) must be protected from future sell downs. Any future sell down must require a further act of parliament in order to proceed. The ETU believes that without this protection a future government or the trustee's may act independently from the parliament in selling down public holdings.

The ETU also holds concerns over the future public ownership of Snowy Hydro (and Essential Energy) and as such we would encourage protection legislation be introduced to the parliament to protect these public asset from any future privatisation.