

INQUIRY INTO GENTRADER TRANSACTIONS

Name: Dr Mehreen Faruqi

Date received: 14/01/2011

The Director
General Purpose Standing Committee No. 1
Parliament House
Macquarie St
Sydney NSW 2000

13 January 2011

Dear Sir/Madam,

Re: Submission to the Inquiry into Gentrader Transactions

I'd like to congratulate the relevant Members of Parliament and the Chair of the Committee for setting up this critical Inquiry and insisting it continue despite the proroguing of Parliament just before Christmas 2010 and the intimidation of Inquiry witnesses by the Keneally Government. The Parliament and the people of NSW have a right to hold the Government accountable for their decisions and the Inquiry is a vital part of this process.

I would appreciate the consideration of the following points, arguments and recommendations as part of the Inquiry.

ToR 1: The details of the energy reform transactions completed on Tuesday 14 December 2010

Many of the details about the transactions are not apparent and have not been made public. These include:

- The reasons and rationale behind a rushed sale that resulted in a gross undervaluing of an invaluable public asset.
- Financial deals with the gentraders with regard to coal purchasing and the gentraders contributions to the operation and maintenance of power stations. These costs are substantial, predicted to rise in the future and the NSW community to bearing this extra burden in order to subsidise corporations.
- The details of longer-term costs, risks and benefits, including social, environmental and economic dimensions, of these transactions and plans the Government has put in place to ameliorate identified risks.

Recommendation:

The Inquiry ensure that details of the transactions that impact on the state and the people of NSW be made public.

ToR 2: The circumstances that led to the resignation of directors from Eraring Energy and Delta Electricity

The unprecedented mass resignation of 8 out of 10 directors of the state-owned energy companies in protest of the sale surely indicates the uneconomic nature of the deal. In addition, the rushed appointment of new directors by the NSW Treasurer such that the deal could be struck without any delay leaves the

process open to much, well-deserved, criticism. The people of NSW have a right to know what led to the resignation of the directors and the rushed low-value sell-off.

Recommendation:

The directors of the state-owned companies should be granted parliamentary privilege and protection so they can be witnesses to the Inquiry without fear of litigation.

ToR 3: The impact the transaction will have on current and future electricity prices, competition in the electricity market, and the value obtained for NSW taxpayers

Past experience on privatisation of electricity assets in Australia (examples include South Australia and Victoria) and internationally (for example California) indicate that electricity prices will rise for the consumer and the argument that "market competition will ensure lower prices" has proven false.

Further evidence of this price-rise argument is presented in the form of the following quote (Cahill and Beder, 2005, p. 18):

"Electricity privatisation and deregulation in Australia have been encouraged, facilitated and implemented by governments and state agencies. The costs of the 'reforms' have been borne by the electricity sector workforce, which has been decimated, and by the rural and residential consumers, who have borne the brunt of the resultant electricity prices rises. An essential public service has been transferred to private control in two states, and other states have electricity prices determined by an electricity market that is subject to price manipulation by profit-oriented electricity suppliers. Regulatory structures set up to ensure the smooth running of the market have failed to prevent this price manipulation or ensure reliability of supply. The winners have been those corporations able to buy up the former state-owned industries and impose higher prices on consumers."

Following are some impacts of the transactions on the NSW community:

- Household power bills will increase as private corporations seek to make more profit. These price rises will come in addition to the already high cost of living in cities.
- NSW will lose a valuable income stream worth much more than the \$5.3 billion sale price. The assets that have been sold return \$750 million a year which pays for teachers, nurses and hospitals.
- NSW jobs will be at risk. Evidence of job losses through electricity privatisation has been experienced from mid 1990s to 2003, when employment in the sector fell from 83,000 to 33,000 (Cahill and Beder, 2005). In addition, many NSW jobs in this industry may go off-shore as private companies start controlling this essential public service.

ToR 4: Other related matters - Impact on the environment

Addressing climate change is an urgent global imperative. Australians are the highest per capita emitters of GHG in the world and we lag behind much of the developed world in terms of our commitment to addressing climate change. The NSW power industry is a major contributor to the state's greenhouse gases (GHG). This sector emits 40% of our total GHG emissions due to coal being used as the main fuel for power generation. If the private sector has control of our generators inputs and outputs this will make it much more difficult and expensive to reduce our GHG emissions, especially if the government has already done deals on a cheaper supply of coal to the contractors. It is important to ask what contractual mechanisms exist in these transactions for reducing greenhouse gas emissions i.e. adoption of renewable sources of energy?

As documented above, there are many unanswered questions and arguments against the gentrader transactions and the process that led to this decision. It is important that the Inquiry find answers to these questions and bring out the 'real story'.

Moreover, I believe there are also strong arguments for public ownership of utilities, services and essential infrastructure as this protects public interest of current and future generations. The people of NSW have paid billions of dollars, in taxes, over the past many years to build these assets and oppose privatisation of electricity. The Labor Government does not have a mandate to sell-off this asset and Parliament should send a strong message to the Government to cancel the contracts so that all elements of the power industry remain in public hands.

Thank you for your consideration of my submission.

Yours Sincerely,

Dr Mehreen Faruqi

Reference:

Cahill, Damien and Beder, Sharon, 2005, 'Regulating the power shift: the state, capital and electricity privatisation in Australia', Journal of Australian Political Economy 55, June 2005, pp. 5-22, <http://www.uow.edu.au/~sharonb/jape.html>, accessed 13 January 2011