

INQUIRY INTO GENTRADER TRANSACTIONS

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TERMS OF REFERENCE

To: The Director, General Purpose Standing Committee No. 1
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Submission from: David L Allen, Australian River Deltas.

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

There have been many attempts by different organisations and political parties to sell various aspects of Australia 's public infrastructure over the decades. They are all called REFORM by international organisations that may profit from them.

This particular deal was completed in such unusual circumstances that it may be possible to have it declared null and void.

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

It would appear that this particular deal was done without the consent of the relevant directors and without the consent of the assets owners – the people of NSW. It is possible that these parties did not approve the terms and conditions or that they did not approve the transaction in its entirety.

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

3.1 Electricity Prices

Electricity prices do not appear to respond to any market forces nor to the introduction of new taxes. The GST (God Save The) tax increased the price of several purchasing items but did not impact the price of electricity. When the price of oil went from \$18 a barrel to \$147 a barrel in the space of a few years, electricity prices remained relatively stable and, magically, there was no inflation. Demand for electricity continued to climb as Australians were encouraged to buy new electronic gadgets that consume ever more energy but produce no economic benefits.

Future electricity prices will undoubtedly rise, as promised in media reports. This is most unusual, given that the price of oil is substantially lower than it was several years ago.

As the price of oil rises and as people get serious about Europe 's Carbon Tax then energy companies will be able to justify price rises. They will almost certainly not

reduce energy consumption significantly, as the major users are either so wealthy or so heavily in debt that their behaviour will probably not alter very much.

3.2 Competition in the electricity market

Australia and NSW are required by international law to encourage competition in most of our markets. What will probably happen is that several companies will control the electricity market, giving an impression of market competition. Australia's history shows that the reality may be quite different as cartels may form.

3.3 The value obtained for NSW taxpayers

NSW taxpayers obtain no value from this selloff nor have they from any other selloff. What tends to happen is that suppliers put up their prices substantially when they see that any Australian Government has access to a new tax such as the God Save The tax that was introduced about a decade ago. Consequently new revenue makes it even more difficult for the NSW Government to fund new infrastructure projects, especially projects that deliver value to NSW.

As an example, as massive amount of money has been spent on transport infrastructure, resulting in a deliberately constructed tangle of slowly moving roads that the NSW public must maintain. A second example is the massive amount of money that has recently been spent on Sydney's water infrastructure, despite the fact that Sydney has excellent rainfalls for much of the last two decades. Rather unusual weather forecasts were used to justify recent water-expenditure in major Australian cities.

3.3.1 Public Revenue from this selloff will quickly disappear. A number of dubious projects have already been earmarked.

3.3.2 History indicates that Private revenue from selling electricity will not trickle down into NSW's economy; rather it may trickle overseas. The top 2% of wealthy people reportedly own about 90% of the world's wealth and it appears that they want more.

3.3.3 The reason given for this deal is that it would help NSW maintain its credit rating. As indicated above, the deal provides a negative return to NSW's budget, so this argument appears to be spurious.

Credit rating agencies gave AAA ratings to worthless CDO's and failed to see that many major AAA companies may have been trading insolently prior to the Global Financial Crisis (GFC). Some such companies failed while others required massive government handouts.

AAA ratings from credit rating agencies are not worth very much, although NSW can borrow money more cheaply when it has a better credit rating.

3.3.4 It is difficult to see NSW getting any tangible benefits whatsoever from this transaction and skilled people will lose their jobs.

4. Other related matters.

4.1 Political opportunism

It appears that this inquiry into a financial transaction was initiated for party-political reasons rather than for economic reasons. Different political parties propose the selling of public assets at various times, depending on whether they are in government or in opposition.

It appears that Sell-opinions are forced on the NSW Government by lobby groups and that the people of NSW (and Australia) oppose the privatisation of public assets when they are allowed to express an unbiased opinion.

Australia has sold massive amounts of public infrastructure and gold-reserves over the last three decades and most forms of debt have risen.

4.1 Trade Debt

In particular, our trade debt in the 1990's, when we had the best terms-of-trade ever, was the worst in our history. As outlined above, this transaction may increase NSW's trade debt.

4.2 Credit Card Debt

Australians have amassed over one trillion dollars worth of debt on their credit cards in years when our export-economy was performing excellently. This debt has risen from millions to billions to trillions so quickly that quadrillions may be just down the track. It is expected that this transaction will increase the rate at which credit card debt is rising.

4.3 Political Parties – not at State and LGA level

The political parties assume and or drop policies depending on whether they are in government or in opposition. An analysis of increasing debt levels and the almost total lack of informed, intelligent debate shows that the very unique political system that NSW and Australia enjoy is not working.

I propose that the political party system be abandoned for NSW, allowing politicians time to focus on issues rather than on getting like-minded colleagues elected.

4.4 NSW's public utilities

All five of NSW's public utilities are under pressure, with other aspects of our economy set to follow suite. There may be insufficient business experience in any

parliament (government or opposition) or department in NSW or in Australia to even start a discussion about ideas that are beneficial.

We can learn from past campaigns, with the Lib / Lab support the GST received before it was finally implemented perhaps providing a classic example.

NB: One could imagine the indignation if Mr. Smith or Mrs. Jones were allowed to stand to be captains of Australian industry, sporting teams or other unregulated and undemocratic organisations, although the quality and the ethnic diversity of such organisations may improve. We could also imagine the indignation if media analysts were able to change such captains at whim.

4.5 Positive Ideas / Education

There are many positive and sustainable ideas that NSW could consider, with the expectation that some of these ideas would generate positive cash flows for NSW's government quite quickly.

A good education system is the key to good infrastructure, as traditional people have realised over the millennia. University bookshops report difficulty in locating books about Australia that are true. What do we teach? The current Qld flood-disaster shows that we have to do better rather than continuing with policies that have been unsuccessful for so long.

4.6 Other Energy Options

As always, lobbyists are proposing the adoption of alternative energy sources for a tiny NSW population that produces almost no manufactured goods. Some such energy-proposals are laudable while others may only be possible when the laws of physics are changed.

4.7 Business Analysis

The tools for analysing the privatisation of a Government (or public) utility are available. I am happy to be involved in any process that would look at the energy-selloff from a more scientific point of view.

4.8 Appearance at Hearing

I am willing to appear before the Committee to discuss this submission about the NSW energy selloff.

Yours Sincerely

David L Allen