

**Submission
No 35**

INQUIRY INTO LEASING OF ELECTRICITY INFRASTRUCTURE

Name: Ms Sandra Darroch

Date received: 18/05/2015

**SUBMISSION BY SANDRA DARROCH TO THE NSW PARLIAMENTARY
SELECT COMMITTEE ON
THE LEASING OF ELECTRICITY INFRASTRUCTURE**

1

**SUBMISSION TO NSW PARLIAMENTARY SELECT COMMITTEE ON THE
LEASING OF ELECTRICITY INFRASTRUCTURE**

By SANDRA DARROCH

OVER the past 20 years I have been researching the story of electricity in Sydney and NSW. I know where the bodies are buried – and I can put names to them (and I will).

In 1995 Sydney Electricity – the former manifestation of what is now, in part at least, Energy Australia – commissioned me to write their centenary story of what had started out as the “Electricity Undertaking.”

In the event, Energy Australia declined to publish my history of their entity, and commissioned a “coffee

table” volume instead. I leave it to others to speculate why they did not go ahead with my deeply-researched record of their chequered history.

Today I have been called to tell you what the lesson of history is in this important matter. I have my view about the rights and wrongs of the “poles and wires” question. But I will keep that for my final remarks, for I am here primarily to put what you are considering into its historical context.

The entities that are today Ausgrid and Transgrid began life in 1904 as the “Electricity Undertaking” of the Sydney Municipal Council, established to bring light and power to, initially, the CBD. Over the next 111 years, the utility grew

SUBMISSION BY SANDRA DARROCH TO THE NSW PARLIAMENTARY
SELECT COMMITTEE ON
THE LEASING OF ELECTRICITY INFRASTRUCTURE

2

and expanded to cover most of Greater Sydney, and now beyond to other parts of the State, and nationally.

From 1950, its original threefold functional structure – generation, distribution, and retail – was progressively hived off and corporatised. Today in NSW, only the second element - the so-called “poles and wires” – remain in government hands, and are poised to be partly privatised, which is why we are here today.

From the beginning of its existence in 1904, the Undertaking was mired in malpractice and – yes - corruption, stemming mainly from the influence over its activities by union officials, aldermen, Ministers and governments.

The people who actually worked for the authority were mostly hard-working, dedicated, honest, professional, and conscientious. The extent to which the story of electricity is a story of success and achievement is due to the generations of engineers, administrators and workers who strove to bring power to the people of Sydney and NSW.

Yet, as Lord Action, remarked, power tends to corrupt, and in NSW it has tempted a lot of people down the years.

Almost from day one, the temptation was there. At one of the first Royal Commissions set up to expose corruption in the power industry in Sydney and NSW, the superintendent of the authority’s first power-station at Pyrmont, Richard Woolf, admitted to soliciting and accepting bribes from coal suppliers and passing them on to Labor aldermen on the City Council.

Here, however, he was merely following what was established practice on the City Council, where union-nominated Labor aldermen - they were called

SUBMISSION BY SANDRA DARROCH TO THE NSW PARLIAMENTARY
SELECT COMMITTEE ON
THE LEASING OF ELECTRICITY INFRASTRUCTURE

3

“the Black Hand gang” – had been extracting bribes from contractors for decades. And not only Labor aldermen -- Local Government both left and right had corrupted the City Council back into the 19th century. The principles of Tammany were alive and well in Victorian Sydney.

Road contractors, for example, were obliged to pay so-much per yard of surface laid as the “sweetener” to get the job. Woolf merely continued this custom on into the new Undertaking, “charging” successful tenderers so much per ton of coal delivered to his powerhouse.

The “sweetener” went by various names and euphemisms, many of them quite colourful. Early on, the bribe was referred to as the “boodle”. The go-between conveying the bribe money was called the “boodler”. In the 1920s, the “boodle” was divvied up in the “snug” of a pub in Woolloomooloo leased by a

former Labor alderman on the City Council (after being handed over by a representative of a coal-company – in the traditional brown-paper bag - outside the office of the *Sydney Morning Herald* in Hunter Street).

Later on the bribe was called “the joke”, or “the laugh”, or “the commission”, or “the present”, and the Labor aldermen avoided declaring it by claiming it was a prize won, for example, in a Salvation Army Art Union, or the legacy of an aunt who had passed away in Queensland, or elsewhere outside the State’s revenue catchment area.

Interestingly, an echo of this terminology cropped at ICAC earlier this year when Counsel Assisting the Commission revealed that Ausgrid had a staff training-scheme on how to deal with “gifts” from suppliers and contractors.

SUBMISSION BY SANDRA DARROCH TO THE NSW PARLIAMENTARY
SELECT COMMITTEE ON
THE LEASING OF ELECTRICITY INFRASTRUCTURE

4

The primary engine of corruption in the City Council was its Electric Light Committee - dubbed colloquially as "the Boys Upstairs" - which awarded the Undertaking's tenders and administered its finances and also provided "jobs for the boys". Thomas Rooke, the first general manager of the Undertaking resigned in 1908 in despair over the way Labor aldermen were over-riding his and his senior management's staff decisions. He had put up with political interference for four years, and had had enough.

His successor, Hugh Forbes Mackay, was at the helm of the Undertaking and its successor the Sydney County Council for the next 39 years. A dour Scot, he was as honest as the day is long. Yet for much of those almost four decades he fought a never-ending battle against political and union interference in his beloved Undertaking.

Yet Mackay had to tackle the problem softly, softly - his management fingers had been badly burnt early in his tenure as the authority's chief executive and nominal hirer-and-firer of staff. One of the servicemen who worked for the Undertaking was caught using authority equipment and materials on a "private job". Mackay ordered his immediate dismissal.

However, the miscreant in question happened to be a member of a local Labor Party branch, who promptly complained to his representative on the Electric Light Committee. He was instantly reinstated (and, moreover, he was given a salary rise the following month).

Mackay knew he would have to tread very carefully from then on.

After the First World War, increased demand for electricity required the building of a second power station at Bunnerong.

SUBMISSION BY SANDRA DARROCH TO THE NSW PARLIAMENTARY
SELECT COMMITTEE ON
THE LEASING OF ELECTRICITY INFRASTRUCTURE

5

The Boys Upstairs licked their lips in anticipation. This would be big bikkies. And one person particularly licking his lips was Silas Maling, the deputy-chief engineer.

In mid 1926 Forbes Mackay had gone overseas on electricity business. In his absence Silas Maling, was left in charge of the Undertaking and the negotiations for contracts for the new plant at Bunnerong. Silas Maling was not honest, and in fact he had been in league with Woolf, and had been getting a cut of what Woolf had been getting since 1908.

The first thing Mackay heard of what was happening back in Sydney was when the executives of a large British engineering company, which had tendered for some of the Bunnerong plant, asked him if it was usual practice in Sydney to pay a commission of more than £10,000 – a huge sum in those days, worth perhaps 10 times as much today – to ensure that they got the contract.

However, Mackay did not deter the English firm from sending the “sweetener” to Sydney. But he did alert his friends in the main Opposition party to what was going on. Maling was arrested trying to flee the country, the Governor dismissed the City Council, and two Royal Commissions were set up to find the guilty parties. Maling - was convicted of fraud and bribery, and jailed for six months. . (The Labor aldermen escaped retribution, mainly because of their excellent counsel before the Royal Commission, Dr H.V. Evatt.)

It was now obvious to almost everyone that corrupt alderman and their acolytes could not be trusted to run what was becoming a very big industry in NSW. So in 1935 a reigning conservative Government disbanded the Undertaking and set up a new authority to run the power industry in Greater Sydney. It was to be

SUBMISSION BY SANDRA DARROCH TO THE NSW PARLIAMENTARY
SELECT COMMITTEE ON
THE LEASING OF ELECTRICITY INFRASTRUCTURE

6

called the Sydney County Council, and Forbes Mackay was named as its first chief executive.

Meanwhile, the Unions had been busy in other directions, featherbedding the workforce whenever Labor go back into power. For example, in 1924, the last year of the Civid Reform-controlled regime, the Undertaking reported a surplus of £204,217 pounds. Then Labor got back into power, and by 1927 the Undertaking had run up a deficit of £100,000. In that time the wages bill had increased from £539,000 in 1924 to £1,118, 000 – and this didn't include the wages for the extra wrkforce of 1000 laid on to complete Bunnerong.

It was now obvious to almost everyone that corrupt aldermen and their acolytes could not be trusted to run what was becoming a very big industry in NSW. So in 1935 a reigning conservative NSW Government disbanded the Undertaking and set up a new authority to run the power industry in Greater Sydney. It was to be called the Sydney County Council, and Forbes Mackay was named as its first chief executive.

By then, however, the main trouble was coming not from the aldermen, but from the unions, particularly at Bunnerong. Two main unions influenced the activities of first, the Undertaking, then the Sydney County Council. One was the Municipal Employees Union, and the other the Electrical Trades Union.

Although the 1940s – the war years – showed the authority at its very best, coping with wartime emergencies and difficult circumstances at a grim time, it was also a period of industrial strife that severely affected, and sometimes crippled, what it did.

SUBMISSION BY SANDRA DARROCH TO THE NSW PARLIAMENTARY
SELECT COMMITTEE ON
THE LEASING OF ELECTRICITY INFRASTRUCTURE

7

Starting with the end of the Depression, a wave of militancy and anti-capitalism swept through the Labor movement, culminating in a series of rolling strikes that almost literally cast a pall over Australia's immediate postwar years.

In truth, Bunnerong had been little short of a disaster from the start. As the tide of militancy rose through the 30s, 40s and into the 50s, strikes and "go-slows" at Bunnerong provided the ideal weapon for unions to blackmail the authority in their quest for higher wages and better conditions (the Unsworth 35-hour week, for example).

As the political winds changed, the City Council and its successor the SCC were subjected to sometimes drastic changes in political direction, depending on which party was in power in Macquarie Street.

Open warfare broke out between the management represented by the then General Manager Eric Ranger and the left-dominated Labor caucus that controlled the board. This led to a much-publicised farcical stand-off where in one week, when Ranger was on leave, the SCC had three separate General Managers - one on Monday, another on Tuesday, and a third on Wednesday.

The then chairman of the SCC – running a utility with a revenue of more than \$100 million annually - was a banana-sorter at the City Markets, elevated to the chairman's job (with a \$3000 entertainment allowance and a chauffeur-driven limousine) by dint of his placement on the SCC board as a union (his fellow Labor councillors on the City Council, who were from the right, included Lionel Bowen, a future deputy leader of the Federal Labor Party).

Yet it was in the 1950s, and particularly the 1960s and early 1970s, that became the boom years of the SCC, which expanded its reach all over Greater Sydney,

and increased its revenues and profit to the point at which the State Government began to eye its assets as fruit ripe for the picking.

The SCC was taken out of the hands of the elected representatives and put in the charge of government-nominated managers, not necessarily engineers. And instead of using its increasing revenues to reduce the price of electricity supplied to consumers and industry, and investing in new generating and distribution infrastructure, it was directed to pay a regular dividend into the State coffers, to be used as its political masters saw fit. If it needed new investment in infrastructure, it was told to borrow the money for it on the market, and the public would pay the interest.

Since the demise of the SCC much of the endemic corruption problem has shifted into State Government territory. ICAC has been busy.

Meanwhile, over the past six-to-seven years electricity network prices in NSW and Queensland have risen massively whereas, network prices in Victoria and SA, which have been privatised, have decreased.

In recent times there have been a lot of changes in the electricity industry in NSW and Australia generally. Privatisation has replaced corporatisation as the new face of electricity. It now has serious competition from natural and coal-seam gas, and there are other and perhaps rival technologies on the horizon. (And that is not to mention climate change.)

It is a tough new world of energy out there, and many revolutionary changes are occurring. Yet the past can have a lesson to teach us. For me, it is that the public interest must triumph over private and sectional and political interests, and the good of the community at large must be the over-riding imperative for everyone concerned.