

**Submission  
No 20**

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

**Name:** Mr Milton Caine

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

---

# Submission re - the “Poles and Wires”

The “sale of the poles and wires” in my view may have some short term benefits but the issue is: it a wise decision for the future of a public asset. In a public meeting I once said, “If New South Wales is going to only last for not more than 10 years, this program to lease the poles and wires could be a good thing; however as my children and my grandchildren (both born and as yet unborn) plan for this great state to be here for many more years than that, it seems to me to be a financial suicide decision” and I hope to explain the logic of that statement to this committee.

Firstly we need to see where the government normally gets its money from and there are essentially 4 main areas and they are: profits from enterprises they manage that the all the citizens own, goods and services that they sell, taxes and levies, fines.

Secondly government spends money on: goods and services to assist the government to perform its functions, wages and charges for staff, assistance to programs external to government, concessions for certain classifications of people deemed to be in need of assistance.

Thirdly there are many transactions within and between government departments that should be considered to have no effect on the budget bottom line, for example – when the government owned the whole of the electricity including the coal mines, the generators and the distribution network, the cost of electricity to a Government hospital would be an internal transaction but would not affect the budget bottom line. However to fully cost the hospital as if it was a separate entity the “cost” of electricity would be recorded as a non-financial transaction if the books were kept well. (This is not always a practice of governments wishing to inflate the expenditure on separate departments, as in the case where a senior public servants wage claim is related to the financial value of the department that they manage and an inflated cost assists in their wage claim.

With the above in mind, for one to consider the true position of the full effect on Government of the 49% leasing of the poles and wires in a 99 year lease the first position is to have the total cost of all electricity consumed by all government interests including local councils (where a lot of cost shifting has been seen in the past). When the total cost of this is calculated, then 49% of this cost will affect the government’s bottom line as it becomes an additional expenditure. Currently the government receives all the revenue that non-government consumers are charged for the use of the poles and wires; but after the lease is in place the Governments income will be reduced by 49%. So the government will receive less revenue and an increased expenditure in the budget.

If prices are to remain the same and the same number of people working for the divided company then there will be an issue with the shareholders of the leasing companies as they will expect returns greater than the interest rate from time to time. It is not conceivable that having a divided company managing the poles and wires will be more efficient than a single company managing the poles and wires. In fact, it is more than reasonable that the potential duplication of at least the administration of the companies will increase operating cost and therefore reduce profit margins causing a downward pressure on returns for

shareholders. If the returns for the shareholders fall sufficiently then there is pressure to abandon the partnership which will also cause additional unnecessary costs that will inevitably be carried in the end by the taxpayer.

I shall digress for a moment onto some historical privatisations that the Federal Government has been involved in. The Commonwealth Bank current profits, if they were fed into the Federal Treasury, would have prevented the budget deficit blow out if all other things were equal. If the Federal Government had not privatised the telephone system then the profits from these businesses would be in the hand of the Government treasury and the local cost of telecommunications to the Government would be nil. These two measures alone cost the government dearly and as a result there is pressure on the State Governments to find funds from other sources, as the Federal Government shuffles the financial deckchairs in its many cost shifting exercises.

I must remind all of the way we did business in the past. The government of the day seeking to develop some significant infrastructure would cost the project and “sell” Government bonds while launching a lottery in the name of the project where some small prizes were offered for tickets sold. The result was that many people would buy lottery tickets because they supported the project and after the prize money and the administration fees were deducted the extra funds, which were substantial with each draw, were set aside to redeem the Government bonds at maturity and to pay any interest due from time to time. Remember the Opera House Lottery, The Harbour Bridge Lottery. This funding came to an abrupt end when the Wran Government, in its desperate dash for cash, sold the NSW Lotteries at a hugely undervalued price compared with any reasonable estimate from those distant from the transaction. Like drunken sailors in need of funds, NSW now suffers a funding crisis on many fronts but this is no reason to capitulate to this failed direction. The long term capacity of a government to be able to fund necessary programs must be the highest concern and not the monument-building governments we have experienced in recent years.

If the Government is desperate for cash then there are many projects that are happening that are expensive and delivering worse outcomes for the most vulnerable, for example, the truncation of Newcastle Rail is extremely expensive (well over \$150m as I understand) when the Minister was shown a costed plan of \$3m that would deliver an open track and a tram-like train service to Newcastle Station without disrupting the traveling public – some of the most vulnerable people in Newcastle use that part of the service. The road changes I have suggested will assist in improving the traffic flows around and across the rail line, while conversely the road changes to date of the government, in and around the rail area, have severely hampered reasonable traffic flow through preventing right turns and the blocking of some roads. This ill-conceived decision of this government will have rapidly

increasing costs to maintain a substandard transport service with an increased financial burden to the most vulnerable (those with significant disabilities). Links to my proposal are <http://www.miltoncaine.com/nsw-state-general-election-campaign-2015/rail-transport-for-newcastle-2015-election/> and <http://www.miltoncaine.com/transport-in-newcastle-for-the-2015-election/the-details-of-the-transport-plan-for-newcastle/>

To fully understand the position of the Government, we must first understand that they do not actually own things; rather they are to manage the assets on behalf of the whole population. The Governments of today needs to ensure that there are revenue expansions for governments of the future but the direction of this Government is as if there is no future **BUT there is a future beyond our lives unless we totally destroy the whole place. LET US NOT BE PARTY TO THIS IRRESPONSIBLE AND UNACCEPTABLE ATTITUDE**

Let us step back a moment. Many studies have shown that a large proportion of the bushfires originated with sparking from the electricity transmission lines. I note that there has been a large replacement of power poles in the lower Hunter area, I might add that several areas there have been the replacement of as many as 10 consecutive poles in one street and it seems to me that as many new developments require the sinking of the power lines that this would have been wise to consider as the poles in one are become old and need to be replaced that the sinking of the cable may be the most effective long term solution, but we have the replacement of the poles. If the lease goes through then how will a future wise government be able to sink the power cables? By this decision the governments of the future are not only hamstrung in relation to future budget concerns but also future directions as to whether it is wisest to sink the power cable in one area or another.

If a government want a mandate for a development why not use the tested process used in the USA where at a general election certain propositions are put to the people as they vote for the new Government.

**So far we have:**

- 1. The need for the government to provide verifiable figures on the total net income from electricity distribution so as we all can know exactly what we are looking at as the total net income to be reduced by 49%. (A)**
- 2. The total net value of electricity distribution that could be charged to every source of Government, including local government, so we can know exactly what the additional net cost to government will be at least 49% of that cost. (B)**

3. The manner and cost to government that the Government will use to maintain (if they keep such a promise) no increase in electricity prices and no reduction in employee numbers. (C)
4. The total expected additional costs to the duplication of administration of the two separate entities. (D)
5. The total value in any guarantee within any prospectus of return on invested capital to the share-holders. (E)
6. The cost to the community of the bushfires caused by sparking from the power lines. (F)
7. The cost of the Commissioner and the support team to oversee the electricity prices to prevent them for increasing as per the promise of Government. (G)

**This would mean share-holders returns would be: (if actual income for purchaser of the lease is represented by y)**

**The price of the lease must be significantly less than 99y when it will be shown that  $y = 49\% \text{ of } A + 49\% \text{ of } B - D - 49\% \text{ of } F$**

**Effect on Government's annual revenue would be at least: (if total effect was represented by x)**

**To be worthwhile it must be shown that the need for funds is extremely urgent and that the lease payment must be significantly greater than 99x when  $x = A - 49\% \text{ of } A - 49\% \text{ of } B - C - E - 51\% \text{ of } F - G$**

The government must come clean on these figures and if it did I am certain that the cost to Government would be, in the long term, far greater than the sale price of the lease and as such a lease will make it impossible for the future governments to fund everyday government responsibilities. As this government has already shown it is committed to cost shifting in many areas of government, as many before them have done I would expect any holding down of electricity prices will be a hidden part of future budget papers. It is imperative that the full and total disclosure be made, while I acknowledge that and accounting firm has expressed an opinion we need to understand what the total instruction given to the firm for the statement will reflect legally all that the instruction requires but may exclude aspect of the costing as I have outlined. As a person who has studied accounting and economics, I know how to avoid what is necessary to avoid in order to produce the desired outcome of a client. We need a full and independent opinion with the full impact to the whole of Government, the investors and the consumers over both the short term and the life of the lease agreement. I am totally confident that such a statement will be at odds with the current position that the

**government is relying upon. Such an opinion should entertain other ways of funding necessary projects that the government may deem as necessary.**

**The government can obtain cheaper money than this all we need to look at is that the government can use government bonds to raise cash if these projects are so very important for government as a whole. As in the Newcastle rail decision, it can be held that the need for the expenditure may be able to be delayed or funded in a less impactful way on the future earnings of government.**

**So in summary the Government must supply the actual verifiable figures as indicated above to advance their case as well as demonstrate how this decision to lease the poles and wires will not have any negative impact on future budgets of either the Government or the consumers**

**I therefore urge all members to totally reject this proposal to lease the poles and wires and to assist the government to find a better way.**

**Thank you**

**Milton Caine**