

INQUIRY INTO GENTRADER TRANSACTIONS

Name: Name suppressed

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Partially Confidential

Submission to Legislative Council Inquiry into Gentrader transactions

This submission addresses the third term of reference of the inquiry: the impact the transaction will have on current and future electricity prices, competition in the electricity market, and the value obtained for NSW taxpayers. In addition comments are made in relation to the fourth term of reference: other matters – in particular, the impact the transaction may have on the emission of greenhouse gases from fossil fuel based electricity generators and the transparency of government processes.

Thank you for the opportunity to make a submission into this inquiry. I have only recently become aware of the inquiry and have had limited time to make a submission so my comments are fairly general.

EMISSION OF GREENHOUSE GASES

Need to reduce emissions

There is an urgent need to reduce greenhouse gas emissions. One significant strategy to achieve this involves the promotion of renewable energy technology to replace fossil fuel based electricity generation. Currently coal based electricity generators are responsible for the vast majority of NSW electricity production and a significant proportion of NSW greenhouse gas emissions. The reduction of emissions from fossil fuel based electricity generators would make a very significant contribution to overall emission reduction. It is in the state's long-term interest, and is the responsibility of the state, to actively promote renewable electricity production and to phase out fossil fuel based electricity. The privatisation of the electricity industry, both retail and particularly generators, would have a negative impact on efforts to reduce greenhouse gas emissions.

Privatisation provides incentive to maximise electricity use and increase emissions

Private companies have an imperative to maximise financial returns on their investment and in the case of the electricity industry that provides an incentive to maximise the use of electricity. A privatised electricity industry would have a negative incentive to encourage energy efficiency. Maintaining or increasing the level of electricity use would provide greater profits. A privatised industry would not actively promote efficiency saving measures such as solar hot water, increased insulation, energy efficient appliances, co or tri-generation. This would place greater pressure on local, state and federal governments to promote these practices without the cooperation of the electricity industry. It is not known whether the state government has entered or proposes to enter contractual arrangements with the purchasers to guarantee a demand for electricity, level of market share or profitability. If so, such guarantee would have extremely negative consequences for the effort to develop sustainable and renewable energy resources.

Concern about the supply of cheap coal

It is well recognised that one of the main incentives to drive energy efficiency is the cost of electricity. Various ways to 'put a price on carbon' are being canvassed at the federal level. Any such efforts to affect energy usage and influence consumers and industry to adopt energy efficiencies will be undermined by state government proposals to secure a cheap source of coal for power stations. Reference is made to the proposal for the three major electricity generators to jointly operate a coal mine with the intention to obtain coal at prices significantly below market value. This is a negative proposal which artificially supports the profitability of fossil-fuel based electricity generation. It deprives the state and federal governments of revenue that would otherwise be received if the coal was sold at market prices. It also imposes barriers to the entry into the market and competitiveness of alternative sources of energy.

Misinformation about dual coal/gas generation and capacity for CCS

It is noted that the state government has made announcements that the refurbishment of the Munmorah power station and the development of new power stations in the Hunter Valley will be more environmentally sound because they will be able to operate using both coal and gas and be ready to utilise CCS techniques. However it must be noted that the application for the Munmorah extension did not include an application for the necessary infrastructure for gas fired generation and was approved without any such requirement.

Similarly the approval simply required that the development not preclude cost-effective retro fitting of post-combustion carbon capture technology.¹ This determination certainly does not require the fitting of such technology. There are real doubts about whether any such technology is available or is likely to become available. It therefore appears at best irresponsible to approve fossil fuel based electricity generation on the basis that CCS may possibly become available sometime in the future.

COMPETITION IN THE ELECTRICITY MARKET

The proposed transaction, particularly if combined with the proposal to guarantee a cheap source of coal through the Cobbora coal mine project or similar arrangement, will have a serious negative impact on the competitiveness of other potential electricity producers, particularly renewable energy sources. Renewable energy already faces significant hurdles in entering the electricity market including those posed by the uncertainty of state and federal policies in relation to strategies to curb carbon pollution, the high capital costs required to establish power stations, connections to the grid and enabling the grid to accommodate irregular supply. Artificially lowering the price of coal, and hence a major input of electricity generation, gives an advantage to coal based electricity generation which will have the effect of further reducing competition within the market and increasing the barriers to the establishment of renewable options.

¹ <http://majorprojects.planning.nsw.gov.au/files/61469/01.%20Project%20Approval.pdf> paragraph 2.8.

ELECTRICITY PRICES

Mention has been made of the need for private entities to maximise profitability. This will have an inevitable impact on the price of electricity for consumers. There is also concern about the incentive or willingness of private corporations to upgrade infrastructure.

VALUE TO TAXPAYERS

The major concern relating to the proposed transaction is the loss of control the state government would have in relation to the emission of greenhouse gases by electricity generators operated privately. This loss of control may result in increased costs in regulation, the provision of incentives for energy efficiency and long-term costs related to adaptation to climate change.

Clearly private corporations would only be interested in investing in electricity generators if they were confident that doing so will result in profit. If private corporations have this confidence one would expect that state owned corporations would also be able to operate the same facilities at a profitable level. The proposed sale would mean that the state government is forgoing the current income received from these generators.

The proposed and related Cobbora coal project means that the state and federal governments would lose additional income which would be available if the coal was sold at market price either domestically or internationally.

The role of gentraders and the terms under which they will operate are unclear. If they are only to operate as a 'middle-man' in buying and selling coal and buying and selling electricity it is difficult to see how they can add value to the process or do anything other than increase costs.

TRANSPARENCY OF GOVERNMENT PROCESSES

Unfortunately not all the details of the proposal and related deals appear to be available publicly or readily accessible. Hence it is difficult to comment specifically on the impact. The resignation of the directors of SOCs causes concern. Resignations are not decisions taken lightly and suggest serious misgivings about decisions made and action taken by state government.

It is noted that there were significant protests against privatisation of the power industry in 2007 and 2008. Many members of the public do not support such privatisations.

Once again thank you for the opportunity of making a submission to this inquiry