REPORT OF PROCEEDINGS BEFORE

SELECT COMMITTEE ON THE LEASING OF ELECTRICITY INFRASTRUCTURE

INQUIRY INTO THE LEASING OF ELECTRICITY INFRASTRUCTURE

At Sydney on Monday 11 May 2015

The Committee met at 9.00 a.m.

PRESENT

Reverend the Hon. F. J. Nile (Chair)

The Hon. R. Borsak
The Hon. D. J. Clarke
The Hon. C. E. Cusack
The Hon. S. G. Farlow
Dr J. Kaye
The Hon. Dr P. Phelps
The Hon. P. T. Primrose
The Hon. A. Searle

CHAIR: Welcome to the first hearing of the Select Committee inquiring into the leasing of electricity infrastructure. First, I acknowledge the Gadigal people, who are the traditional custodians of this land, and I pay respect to the elders past and present of the Eora nation and extend that respect to other Aboriginals who may be present. Today we will hear from the Premier, the Hon. Mike Baird, Mr Blair Comley, the Secretary of the Department of Premier and Cabinet and Mr Simon Draper, Deputy Secretary of the Department of Premier and Cabinet. The Committee will also take evidence from representatives of the Energy Supply Association of Australia, Infrastructure Partnerships Australia, Networks NSW and Infrastructure NSW. This afternoon the Committee will hear from representatives of UBS Australasia. There will also be hearings this Friday 15 May 2015 and next Monday 18 May 2015.

I will make some brief comments about the procedures for today's hearing. The hearing is open to the public and is being broadcast live on the Parliament's website. A transcript of today's hearing will be placed on the Committee's website within the next day or two. In accordance with broadcasting guidelines, while members of the media may film or record Committee members and witnesses, people in the public gallery should not be the primary focus of any filming or photography. I also remind media representatives that they must take responsibility for what they publish about the Committee's proceedings. It is important to remember that parliamentary privilege does not apply to what witnesses may say outside of their evidence at this inquiry. I therefore urge witnesses to be careful about any comments they may make to the media or to others after they complete their evidence because such comments would not be protected by parliamentary privilege if another person decided to take an action for defamation.

The guidelines for the broadcast of the proceedings are available from the secretariat. Media representatives who are not accredited to the Parliamentary Press Gallery should approach the secretariat and sign a copy of the broadcast guidelines. There may be some questions that witnesses could answer only if they had more time or certain documents to hand. In these circumstances, witnesses are advised that they can take a question on notice and provide an answer within three calendar days following receipt of the transcript. Witnesses are advised that any messages should be delivered to Committee members through the committee staff. Please turn off mobile phones or switch them to silent for the duration of the hearing.

I welcome our first witnesses, Premier the Hon. Mike Baird, Mr Blair Comley and Mr Simon Draper. Thank you for your attendance. Mr Premier, as you know, you do not need to be sworn in because you have sworn an oath to your office as a member of Parliament. Mr Comely and Mr Draper, please state your names and position titles and either swear an oath or make an affirmation.

MIKE BAIRD, Premier, and Minister for Western Sydney:

BLAIR COMLEY, Secretary, Department of Premier and Cabinet, and

SIMON DRAPER, Deputy Secretary, Productivity and Sustainability, Department of Premier and Cabinet, affirmed and examined:

CHAIR: Mr Premier, I understand that you have a PowerPoint presentation to make. I request that you keep it to no more than 30 minutes. After that, Committee members will ask questions for one hour, and that will be followed by the morning tea break.

Mr MIKE BAIRD: Thank you Mr Chair and Committee members. This has been a longstanding issue for the people of this State. Indeed, over the past 20 years both sides of politics have known that this is something that needs to be done. The question is how we do it and, importantly, how we convey it to the people of this State. The Coalition went to the last election honestly outlining the proposal. We think there are significant benefits to this plan for the people of this State and we received a mandate to go ahead with it. We appreciate that you, Mr Chair, said there would be an inquiry and I welcome this opportunity again to put to you and to the people the benefits that come with this proposal. Before I take questions, I will outline some of the key elements of the transaction and some of the issues to give us a basis to work from and will again put the case that we have put now for close to a year since I announced that this is what the Government wants to do for the people of this State. Thank you for the chance to put this to the Committee.

As we said, the basis for this proposal is quite simple. We want to undertake a raft of infrastructure projects which have not been done, which have been examined and which need to be done. This is the capacity to do it. The $20 billion in infrastructure funding will provide more than 120,000 jobs. That is based on independent economic modelling that has assumed that is the number of jobs that will come with the proposal. There will be downward pressure on pricing and the boost to the overall economy will be more $300 billion in just over 20 years. Importantly, the Government has adopted the recommendations made by Infrastructure NSW in determining the priorities as we allocate the money for that infrastructure.

There will be a raft of projects in the metropolitan region. I will not run through them all individually, but members can see a significant boost to public transport. That was somewhat missed in the debate. There will be significant investment in public transport and an increase in the capacity of our rail network in particular. There will be significant investment in roads and also education, health, sports and culture and additional transport in terms of light rail and bus rapid transit. There will be significant investment across metropolitan areas.

There are also significant regional benefits with an allocation of $6 billion. We will be addressing the regional road freight corridor to increase productivity. There will also be important safety measures for regional communities. There will be significant investment in education and health and country rail. The last issue, water security, is a very significant initiative that has been required for a long time. There is a pipeline and infrastructure to support water security across New South Wales. There will be a range of investments coming to regional New South Wales.

The plan is quite compelling. The increase to the economy to 2035—that is, just under 20 years—is $300 billion. While that comes over time, the size of that lift is about 60 per cent of the current economy. The value of the economy has recently passed $500 billion. In addition, there will be better infrastructure, which attracts more people but also provides greater capacity and improved quality of life for those already living in both regional and metropolitan areas. The last point addresses average State revenues as the economy grows. We have had a consistent number for the past 13 or 14 years. Revenue will be about $4 billion more at the end of that period. As the economy grows, State revenue also grows. That was obviously discussed.

CHAIR: Do you have a printout of this material?

Mr MIKE BAIRD: We can make that available.

Dr JOHN KAYE: Can we have that now?

CHAIR: A copy will provided at the end of the presentation.

Mr MIKE BAIRD: Again, the cost of doing nothing is unacceptable. This has often been missed. What does congestion in the city mean? It means significant things for the economy. As members can see, in 2016 the cost is expected to be $6.5 billion. By the time we get to 2036 if we do nothing the problem gets worse and worse. There is an exponential impact and it will increase to just under $30 billion. It is a significant cost and drag on the economy. That does not take into account quality of life. As the population grows, if we are not investing in this infrastructure to relieve congestion there is also a significant increase in costs for the economy. Doing nothing is not acceptable.

A number of benefits will accrue for the overall budget. Again, this was missed in the overall approach. There is also a significant boost in the reduction of net debt. The dark blue bar is the general government sector's net debt position. Then the total sector is the light blue bar. There is a significant reduction in total sector debt upon completion of the lease. Over time, we get down to complete elimination of general government sector net debt. In terms of the future position of the State's balance sheet, a significant debt reduction is obviously a big positive for the future.

I will not spend too much time dealing with the transaction itself. However, it is important to understand it. There is a long-term lease at 49 per cent. There are four businesses: Essential Energy will be retained at 100 per cent; TransGrid will be 100 per cent leased; and Ausgrid and Endeavour Energy will be 50.4 per cent leased. The Government will continue to hold 51 per cent across the overall businesses with an investment in a statutory board and an organisation that will be finalised. However, the State's interests will continue to be managed by the Government.

How does it work? In simple terms, the expectation is that we will undertake a trade sale for each of the leases, but we also want flexibility. A range of measures can be used. Whether we use an initial public offering [IPO] for Ausgrid or Endeavour Energy depends upon market conditions. We are examining the best way to achieve the best value for the people of this State. The advice is that a trade sale is the best strategy. However, there may well be interest in an IPO as we run through the process. Obviously, maintaining the assets and upholding safety and performance reliability are critical parts of the objective, which will be covered across a range of measures both in terms of licence control and our role as the lessor.

There is obviously a lot of interest, and from both domestic and international buyers. As members can see, there is a great deal of interest on the part of pension funds and sovereign wealth funds around the world. However, there is also significant interest on the part of Australian superannuation funds and financial infrastructure investors that pull institutional money in the infrastructure space. There is a lot of interest. People have questioned whether we welcome international interest. We do. One would obviously expect that if there were any international interest it would be governed and would need to be approved by the Foreign Investment Review Board, which is the usual process. That would apply to this transaction.

There are three parts to this. It will release the $20 billion so we have the net proceeds, which will come from the three leases. There are Commonwealth incentive payments, which the Commonwealth has agreed to and signed up to, and all those details are available. That is the $2 billion. Then there are the investment earnings on the balances in Restart. The Parliamentary Budget Office has looked at the assumptions on this and said that they are a conservative basis of returns. But I note that we already have $2 billion in Restart and that gives the Government the option of considering, rather than waiting for the tail of investment earnings, whether there a capacity to bring projects forward. Is there a capacity to do additional infrastructure spend? It provides some financial flexibility as we deliver the $20 billion. It should give you great assurance that the $20 billion will be delivered. What we need to finalise now is the profile, the timing and the capacity potentially to do more. But all of that is how we will get to the $20 billion.

Another point is the concept of the loss dividends. It is not. You receive them up-front. Obviously the up-front proceeds are nothing more than the net present value of the future dividend stream. Obviously that is determined not by myself; there is an independent panel that determines what those future dividends are worth, which obviously means that for the Government to undertake the lease it must receive more than those dividend streams are worth. We will continue to receive our tax equivalent payments for the retained interest that the State Government has. There was a bit of interest in pricing in the campaign, and I will just put through a couple of key points. This gives you a sense of the breakdown.

Currently, looking at it on the left, the current breakdown, there are some green schemes in place. There is the distribution and transmission, which is the 47 and the 14, which is the subject of the lease. Then there are the wholesale and retail costs. You can see that the recent determination by the AER, which I will talk to in a minute, has reduced the costs of transmission and distribution. So 8 per cent distribution, 1 per cent transmission, which is then passed on to consumers. So the main crunch is the cost in the poles and wires. Again, that has been determined, which does have significant implications, regardless of the lease, which I will run through. There is a lot of commentary around this and I have simply highlighted some key points. I think it is important that it is understood by the Committee.

Ernst and Young said that network prices for typical customers have fallen in real terms since privatisation. The Grattan Institute said that while privatisation has not always been politically popular—that is an understatement—the evidence of relative price stability and supply reliability in the privatised sector suggest it has worked. Other factors also suggest that government-owned companies are less efficient in their operation of spending than private companies. So that is the Grattan Institute. Rod Sims is well respected not just in a professional capacity but also in his role as Chair of the ACCC. He said if the private sector owns them, they will run them more efficiently and therefore give a constant regulatory regime. Prices in New South Wales will be lower in the future if they are privately owned. You only have to look at the performance of the publicly owned networks against the private ones. It is chalk and cheese. The Productivity Commission says that the evidence appears to suggest that State-owned enterprises are less efficient then their private sector peers. The best remedy is privatisation.

The Hon. Dr PETER PHELPS: Hear! Hear!

Mr MIKE BAIRD: That is the Productivity Commission, not Peter Phelps. This is the graphic demonstration which makes it very clear that publicly owned network businesses—this is since the period of private sector investments in both the Victorian and South Australian networks. You can see in real terms costs have come down in both of those jurisdictions and in Queensland and New South Wales they have risen significantly. That means that the bills of every consumer, private and business, have been significantly higher in New South Wales than they should have been on the back of public ownership.

There was some talk as well about South Australia. Again, the network charges are on the left, but if you look at the breakdown on the right hand side you can see the biggest is the renewable schemes, the green schemes that are run in South Australia—almost double the cost that they are in New South Wales. So that was a big part of the impact on South Australian prices. Again, the main point is we are talking about the network component of prices, which is lower in South Australia in real terms. We have introduced Alan Fels to provide assurance to the public. He must sign off that each transaction will not put upward pressure on prices in the short, medium and long term. There was concern about the short—no, this is over the duration. If those guarantees are not met, then the lease will not proceed.

There is assurance that Alan Fels must sign off, that the lease will not put upward pressure on prices. Obviously Alan Fels will provide a further assurance to the people of this State on that issue. The determination is an important point as part of this overall process because it is irrespective of the lease, and I think that is what we need to understand. There are a number of things here. The black bar at the top gives you a sense of where they have determined that the most efficient network should be run. They then benchmark all of the individual operators as part the determination. You can see our three—Ausgrid, Endeavour and Essential—and where they sit relative to the most efficient, and you can see that it is significantly below the most efficient, which by its nature means that they are inefficient. That is one of the challenges we have had.

We started to take action over our first term but the regulator has asked for that work to be sped up quite significantly. You can see on the right, which is the current period, revenue that was allowed to come in so that the previous reset, 2008-09 through to 2013-14, you see the significant amount of revenue allowed, which was effectively the gold plating period. That revenue has been significantly cut over the current determination. Obviously that means reduced costs but it also leaves challenges for the businesses, which is this. The total employees forecast as at 30 June across those businesses is 10,911, but the jobs that have been funded by the AER is 8,161. In terms of the position going forward and the impact on this lease, it is those 8,161 jobs which we are talking about. They are the residual employees in the organisation post the AER determination and that is what we will be discussing with all stakeholders in terms of the protections that we need to put in for those 8,161 employees.

At the moment there is a challenge, which is again the argument that we have had in the AER determination. We want to get down as quickly as we possibly can to the price levels and efficiency levels determined, but we are also aware that that has a big impact on those individuals who will be losing their jobs, and we need to ensure there are transition arrangements to enable them to get alternative employment. We will be working to do that and at the same time safety and reliability, which has been canvassed. There is a fierce determination to get down to those levels but we need to balance all those factors as we get there. The cost of those unfunded jobs is about $350 million a year. That is across all those businesses so it is a significant cost that obviously cannot be absorbed as part of the ongoing operation of those businesses. So that is something we have to address as quickly as possible.

This point came up about the tax equivalent payments and dividends to businesses. As you can see, there is a reducing amount. Indeed, by the time we get to 2017-18 you can see that it falls to about 150 post the determination. So there are less returns that are coming for the businesses. Obviously it reflects the increased risk and that is often what was missed as part of the debate. There is an increased risk with owning these businesses with the volatility of income and change in returns. But the real position for 2015-16 and to 2017-18 it goes from $400 million down to $152 million. In terms of the tax equivalent payments we still receive our percentage of interest in the tax equivalent payments of those. So there is an impact on the budget but as I have shown previously there is a significant uplift as the economy grows on the back of the rebuilt transactions.

In the longer term the budget will be stronger, and it takes away a significant risk and it obviously also takes away a significant amount of that debt that stays on the balance sheet. So it is a very positive thing to do and again it gives you the real numbers rather than numbers that were put around during the campaign. There are increased protections under the transaction which is important. Obviously we maintain our 51 per cent lease. We own all the assets and that is the important point. We are just leasing the use of 49 per cent and we have the right to terminate that lease in a range of circumstances, including failure to operate or maintain the network in the appropriate way. Again, on John's point, you can go through these individually in your own time but in simple terms we will have the price guarantee. There are reliability standards. There are licence requirements, including ensuring their substantial operational presence in Australia. So the expectation would be that not just day-to-day workers but obviously a requirement for senior management to be here and present in Australia, whatever the ownership make-up is.

We will continue with things such as planning and environmental protections, enforcement powers, step-in powers and tougher penalties for non-compliance. So there is a range of protections. Indeed, they are stronger protections than we currently have that will come through the back of the lease we are undertaking. Safety and reliability was also discussed. On the right hand side you can see all the publicly owned networks and then the average of the privately owned is the dark blue bar. In terms of safety and reliability—obviously there are some private sector run that are lower and some private sector that are high, but that is the average. We will ensure the highest possible reliability standards we can as part of the transaction. But the evidence shows that indeed the private sector on average significantly outperforms the public sector in terms of reliability.

The protections on those just over 8,000 employees, all the terms and conditions, there would be no change both in terms of enterprise agreements, superannuation entitlements. Obviously we are happy, as we have shown, to discuss arrangements in terms of protections for those employees as part of the lease and that is something we will do as part of the transaction. I think that is it. Again, the important point we make is that this provides a once-in-a-generation opportunity to invest $20 billion into infrastructure this State desperately needs. It grows the economy. It increases jobs. It boosts State revenues. The evidence shows that privately operated networks have meant lower prices for consumers, and at the same time we are putting in comprehensive protections for consumers and safety and reliability under this transaction. We have waited 25 years for this. We have been prosecuting this for the past 12 months. We have received endorsement of the people of this State so we are very keen to get on with the transactions. Thank you for your time.

CHAIR: You still have two minutes remaining. Is there anything you want to add?

Mr MIKE BAIRD: No, that will do.

The Hon. ADAM SEARLE: Mr Premier, during the election campaign there was a report from UBS providing advice to your Government. The report was initially titled "Bad for the budget, good for the State", and raised some concerns about your proposal, in particular, the damage it would do to the State budget. When did you become aware of that UBS report?

Mr MIKE BAIRD: I am glad you have raised that. Yes, a report came out. There have been a number of reports over many years—

The Hon. ADAM SEARLE: This is the report of 17 March.

Mr MIKE BAIRD: —in relation to this issue. Yes. Not surprisingly, when a report has a couple of clear things missing, for instance the asset recycling amount that was included was $3 billion is actually $2 billion, and it failed to take into account the uplift in the economy in respect of the long-term impact on the State budget. So, not surprisingly, yes, my director of policy and my chief of staff raised that with UBS. They were aware of challenges in that report, but neither of them asked UBS to change the report. They merely raised the concerns, which are there for all to see. These things happen.

The Hon. ADAM SEARLE: So you did not make contact with UBS, it was your chief of staff?

Mr MIKE BAIRD: Director of policy and chief of staff.

The Hon. ADAM SEARLE: They both made contact with UBS?

Mr MIKE BAIRD: Yes.

The Hon. ADAM SEARLE: Did you ask them to make contact with UBS?

Mr MIKE BAIRD: No.

The Hon. ADAM SEARLE: Were you aware they were going to make contact with UBS before they did?

Mr MIKE BAIRD: No.

The Hon. ADAM SEARLE: They did not discuss it with you beforehand?

Mr MIKE BAIRD: I was aware. I had a briefing and I was told they contacted UBS.

The Hon. ADAM SEARLE: They told you after the fact?

Mr MIKE BAIRD: No. Look, the point of this is my chief of staff and director of policy raised their concerns in relation to the report.

The Hon. ADAM SEARLE: When did they raise those concerns?

Mr MIKE BAIRD: On the day.

The Hon. ADAM SEARLE: Who did they speak to at UBS?

Mr MIKE BAIRD: They spoke to Matthew Grounds and Guy Fowler.

Dr JOHN KAYE: Who was the second person?

Mr MIKE BAIRD: Guy Fowler.

The Hon. ADAM SEARLE: What time of the day did they make contact, do you know?

Mr MIKE BAIRD: I am not sure, but I really do not think that is relevant.

The Hon. ADAM SEARLE: How was contact made? Did they make a phone call or send an email?

The Hon. Dr PETER PHELPS: Carrier pigeon?

Mr MIKE BAIRD: I do not think that matters.

The Hon. ADAM SEARLE: You are not going tell us?

Mr MIKE BAIRD: My assumption would be by phone.

The Hon. ADAM SEARLE: Your assumption. What was said exactly in that conversation? Were you given a detailed briefing about the content of the phone call?

Mr MIKE BAIRD: What was said, and I will say this for the last time because I do not think we need to spend too much time on this, can you imagine a scenario where concerns would have been raised about a report in which it was missed that the amount used for the asset recycling was $1 billion wrong.

The Hon. ADAM SEARLE: It was $1 billion wrong in your favour though, was it not?

Mr MIKE BAIRD: But worth pointing out. On top of that, there was a loss—non-inclusion—of a significant uplift in respect of the economy. The economic uplift, as you have just seen, is $300 billion over the next 20 years. That uplift was not there. If you run it as the economy grows, the percentage of revenue, as you have seen, historically in the past 13 or 14 years has been about 12 percent, so there is a significant boost to the budget position on the back of the growth in the economy and the jobs that are created. Yes, that was raised.

The Hon. ADAM SEARLE: But the fact is, is it not, that the report that came out was embarrassing to you in your campaign because it suggested that the State budget would take a significant hit. Your office then made contact with the provider of that advice and then the advice was significantly changed, not only to include the things you say were omitted, but to actually remove criticisms of the transaction or proposed transaction. All of the material that was critical of the transaction, because it would create a hit on the budget, was magically edited out. It looks like your office heavied UBS into changing the report, Mr Premier.

Mr MIKE BAIRD: Well, they did not.

The Hon. ADAM SEARLE: That is why I am asking: What was the detail of the communication between your office and UBS?

Mr MIKE BAIRD: They did not. I have told you. This is the last time I will say it. They did not ask UBS to change the report. They highlighted, as they should, the fact that that report did not include the $300 billion impact. That is a matter for UBS. You can talk to them this afternoon.

The Hon. ADAM SEARLE: We will. So you are not willing to tell us the details of the conversation?

Mr MIKE BAIRD: I have just told you the details. That is it.

The Hon. ADAM SEARLE: Mr Premier, you have not. You have globally said there were communications. I am trying to get to the detail of the words that were said. Are you saying you do not know what the detail of the communication was?

The Hon. Dr PETER PHELPS: Point of order: The Premier has clearly answered what the content of those conversations were. They related, first, to the overestimation by a billion dollars, and the underestimation by $300 billion in the accounts. If the honourable member has not been listening, then he should, and if he has been listening, he should not be hectoring the witness.

The Hon. PETER PRIMROSE: This debate is wasting our time.

The Hon. ADAM SEARLE: Mr Chair, this Committee is already operating on a telescoped time frame. We have half an hour with the Premier. I would appreciate if Mr Phelps did not object. That is not a point of order.

CHAIR: The Premier has given details already.

The Hon. ADAM SEARLE: Were there any emails between your chief of staff or your director of policy with UBS in connection to this matter?

Mr MIKE BAIRD: I know you are looking for a conspiracy theory. The conspiracy theory does not exist.

The Hon. ADAM SEARLE: No, Mr Premier, I am looking for actual information. You seem to be very reluctant to give us details.

Mr MIKE BAIRD: I have given you the details. I have said who spoke, what they spoke about, and I told you, why would they not—who would not raise the question that a $300 billion uplift to the economy is not factored into an analyst report? There are hundreds of reports. As I have outlined, there are numbers—why do you not look at the Productivity Commission report; why do you not look at what Rod Sims of the ACC has said; why do you not look at the Grattan Institute; why do you not look at what Mark Ferguson has said? There are many—

The Hon. Dr PETER PHELPS: Julia Gillard.

Mr MIKE BAIRD: —that you can look at. There is Michael Egan, Bob Carr. It goes on and on.

Dr JOHN KAYE: Michael Costa.

Mr MIKE BAIRD: Your friend Michael Costa.

Dr JOHN KAYE: My friend and your friend too.

Mr MIKE BAIRD: There are so many reports and so much history.

The Hon. ADAM SEARLE: We are talking about the UBS report.

Mr MIKE BAIRD: I understand, but there are 25 years of history that you can reflect on. I have given you the details of that discussion.

The Hon. ADAM SEARLE: Were there subsequent emails between your office and UBS about this matter?

Mr MIKE BAIRD: None that I am aware.

The Hon. ADAM SEARLE: The fact is that the original report was quite embarrassing to you, was it not, because it suggested that the budget was going to take a significant hit in its revenue?

Mr MIKE BAIRD: The original report did not take into account that there was a $300 billion uplift in the economy.

The Hon. ADAM SEARLE: Mr Premier, you have said in your presentation—

Mr MIKE BAIRD: That is over the next 20 years as well.

The Hon. ADAM SEARLE: You have said there is no loss of dividends; they are paid up front when you undertake the lease. The fact is that the payments that the Government currently receives from the electricity companies that go to general revenue are not hypothecated for infrastructure, are they?

Mr MIKE BAIRD: The dividend streams at the moment?

The Hon. ADAM SEARLE: Yes, and the tax equivalent payments.

Mr MIKE BAIRD: That is not exactly right.

The Hon. ADAM SEARLE: They are not hypothecated specifically to infrastructure.

Mr MIKE BAIRD: You are not right. In order to build infrastructure either you borrow or take operating services, so it is actually not correct.

The Hon. ADAM SEARLE: The income the Government receives at the moment is not earmarked for infrastructure specifically, is it? It is not 100 per cent earmarked for infrastructure?

Mr MIKE BAIRD: At the moment, that is right.

The Hon. ADAM SEARLE: Whereas when you lease or sell, as you propose, 100 per cent of that money, after investment, is to be earmarked or hypothecated. That is correct, is it not?

Mr MIKE BAIRD: That is right.

The Hon. ADAM SEARLE: From the point of a lease, the budget loses the dividends and the tax equivalent payments, so you are going to have a hit on your annual and recurrent budget because the money you get will be hypothecated solely for additional infrastructure. It is not replacing existing spending is it? It is meant to be extra.

Mr MIKE BAIRD: Let us get the facts base right. You argued $1.7 billion. I remember that coming out a lot in the campaign. If you saw the facts—

The Hon. ADAM SEARLE: That is what has been paid in the past couple of years.

The Hon. Dr PETER PHELPS: Paid in one year. It has gone down, in a sense.

Mr MIKE BAIRD: It has gone down 400 to $150 million. On top of that we still get 51 per cent of the tax equivalent payment, so that remains with us. Yes, there is a reduction, but, as I said, if you invest—not me, the experts. Independent economic modelling by Deloitte shows that the budget is significantly boosted, so there is significantly more revenue that comes in. If you run the assumption that the economy gets a $40 billion boost stand-alone on an annual basis by 2035, at the historical rate of 12 per cent, which we have seen over the past 14 years, that means there is a $4 billion boost in revenue in that year. Over time, as the rebuilding program takes place, you can see the boost to the economy, which leads to more jobs, more investment and also leads to a boost to the revenue of the State. The expectation is there is a significantly improved revenue base that comes to the State on the back of the transaction, not less.

The Hon. ADAM SEARLE: In that presentation you gave us about the dividends and the tax equivalent payments, you did not factor in the TCorp guarantee payments that the State currently receives. Presently they are worth hundreds of millions of dollars, are they not?

Mr MIKE BAIRD: The general Government guarantee fee, which obviously reflects the cost of using the balance sheet, and if you are arguing that you want more debt, not less—it is a good thing for the State to have less debt and less exposure to risk, one of the things I am sure Dr Kaye will talk about is the potential future risks on the grid and there is a risk that comes with that, so there is an impact in respect of debt for TCorp, but I am very happy and proud to be significantly reducing debt for future generations. Is that not what we want to do for—

The Hon. Dr PETER PHELPS: Hear! Hear!

The Hon. ADAM SEARLE: Sure, but when you reduce the debt, if you do, you are also reducing the ability to fund borrowings because you are losing the tax equivalent payments, you are losing the dividends and you are also losing the TCorp guarantee payments. If you add those three together, the losses are significantly greater from this transaction to the annual payment than you are making out.

Mr MIKE BAIRD: You are confusing it. You are going into a debts sphere. There is a cost to using the balance sheet and a risk margin that comes with that. In the long term, the State has less risk and less debt, and that is a very good thing for the State finances.

The Hon. ADAM SEARLE: Why did your office raise issues with those people you have named rather than with the analyst directly? Why did you go to the head of the outfit?

Mr MIKE BAIRD: They—

The Hon. ADAM SEARLE: If your criticism was about the report, why did you not go to the authors?

Mr MIKE BAIRD: We are going back; you are not staying on the debt?

The Hon. ADAM SEARLE: Time is short, Mr Premier. We will come back to it.

Mr MIKE BAIRD: Again, they have spoken to people that they have had interaction with, obviously. That is a natural place to make those concerns apparent.

The Hon. ADAM SEARLE: To be clear, to your knowledge, did your staff raise criticisms about the part of the report that says it would be bad for the State budget? You have mentioned the omissions. Did your office actually highlight criticisms of those aspects that were then deleted?

Mr MIKE BAIRD: I have answered this.

The Hon. ADAM SEARLE: With respect, Mr Premier, you have not.

Mr MIKE BAIRD: I have.

The Hon. ADAM SEARLE: You are hiding behind your staff. You are saying, "I did not make the call, they did", but you have not given us the detail?

Mr MIKE BAIRD: Hang on. Why would they not? What is the conspiracy theory here?

The Hon. ADAM SEARLE: A reputable analyst has said that your transaction would cause a big hit to the State budget and after the intervention of your office, it just magically disappears?

Mr MIKE BAIRD: That report did not include a $300 billion uplift to the economy.

The Hon. ADAM SEARLE: That is what you wanted put in. I am talking about what was taken out. I am trying to ascertain whether those aspects of the report were taken out—

Mr MIKE BAIRD: You will have an opportunity—

The Hon. ADAM SEARLE: —as a result of your office raising those concerns. Did your staff specifically mention those parts of the UBS report—

Mr MIKE BAIRD: I will say this one more time so you get it: My staff did not ask UBS to change the report. Full stop, end of story.

The Hon. ADAM SEARLE: In any respect?

Mr MIKE BAIRD: Full stop, end of story. You are out of questions.

The Hon. PETER PRIMROSE: Mr Premier, in your presentation, you said that the State would continue to receive tax equivalent payments.

Mr MIKE BAIRD: Our 51 per cent worth.

The Hon. PETER PRIMROSE: Do you have a letter from Federal Treasury confirming that?

Mr MIKE BAIRD: As I understand, there is advice about that, but that is the advice I have had.

The Hon. PETER PRIMROSE: I have seen various media reports where that has been refuted by representatives of Federal Treasury. Can you please take that on notice and come back to us to advise whether Federal Treasury will agree to the State continuing to receive tax equivalent payments?

Mr MIKE BAIRD: For our retained interest, yes, that is fine.

The Hon. PETER PRIMROSE: Thank you very much. Can you give us a guarantee that you will not be moving to privatise beyond the current 49 per cent proposal that has been presented today?

Mr MIKE BAIRD: Yes, I can.

The Hon. PETER PRIMROSE: Thank you. Can you tell us the fees that have been received and what you propose will be received from the TCorp guarantees?

Mr MIKE BAIRD: For what?

The Hon. ADAM SEARLE: In connection with the electricity companies?

Dr JOHN KAYE: The loans guarantees.

Mr MIKE BAIRD: What loans are you talking about?

The Hon. PETER PRIMROSE: It is in your budget.

Mr MIKE BAIRD: I am just making sure that—give me a specific question. What does the text message say?

The Hon. ADAM SEARLE: It is not about that.

Mr MIKE BAIRD: Because that does not—just make sure it is right.

The Hon. PETER PRIMROSE: The TCorp fees that are received in relation to electricity. We have dividend payments.

Mr MIKE BAIRD: What fees are you talking about?

The Hon. PETER PRIMROSE: Can I ask you, Mr Premier, to take that on notice too?

Mr MIKE BAIRD: But I do not know what I am taking on notice. I mean, you have got to tell me what. I need to know what I am taking on notice.

Dr JOHN KAYE: You know what we are talking about.

The Hon. PETER PRIMROSE: You know what the State receives in terms of income from recurrent—

Mr MIKE BAIRD: Give me the term. What is the term?

The Hon. PETER PRIMROSE: TCorp fees.

Mr MIKE BAIRD: No, it is not.

The Hon. ADAM SEARLE: TCorp guaranteed payments.

Mr MIKE BAIRD: Guaranteed payments?

The Hon. PETER PRIMROSE: Yes. Can I again ask that you take that on notice?

The Hon. CATHERINE CUSACK: Maybe you should take the question on notice.

The Hon. PETER PRIMROSE: It is in your budget.

The Hon. CATHERINE CUSACK: Take the question on notice. That might be a better solution.

The Hon. ADAM SEARLE: State-owned corporations make payments to the Treasury in return for which—

Dr JOHN KAYE: Interest equivalent payments.

The Hon. ADAM SEARLE: Yes, that is right.

Mr MIKE BAIRD: Okay. We might talk afterwards and see what you mean.

Dr JOHN KAYE: What they are asking about is the interest equivalent payments.

Mr MIKE BAIRD: Are you talking about the general government guarantee fees?

The Hon. PETER PRIMROSE: Yes.

Dr JOHN KAYE: Yes.

Mr MIKE BAIRD: Again, I have discussed the general government guarantee fees, which is obviously the costs and risk of using the State's balance sheet, which is required, but that is a distinct part of this because obviously there is a stand-alone approach to raising debt. There are stand-alone costs attributed to that but, you know, what we get from this transaction is we get less debt and we have less risk, which is a good thing.

The Hon. PETER PRIMROSE: How much did the State budget receive from those TCorp fees this financial year?

Mr MIKE BAIRD: I can provide those to you.

The Hon. PETER PRIMROSE: Good. Thank you. Can you tell me how many scoping studies have actually been prepared and by whom in relation to this?

Mr MIKE BAIRD: We have had one scoping study.

The Hon. PETER PRIMROSE: Who prepared it?

Mr MIKE BAIRD: Our advisers.

The Hon. PETER PRIMROSE: Who are your advisers?

Mr MIKE BAIRD: Deutsche and UBS.

The Hon. PETER PRIMROSE: Through Treasury?

Mr MIKE BAIRD: Yes.

The Hon. ADAM SEARLE: Will you release the scoping study?

Mr MIKE BAIRD: Usual practice. There are a number of significant commercial-in-confidence issues within it.

The Hon. ADAM SEARLE: But, Mr Premier, that being so, you could release a redacted version.

Mr MIKE BAIRD: I do not think anyone could be more transparent with what we are doing. I mean, for a year I have outlined this is what we wanted to do. We are hoping to execute that. Obviously we need to get legislation through Parliament, but we have received a mandate to do it and we are getting on with it.

The Hon. ADAM SEARLE: But, Mr Premier, you yourself said it is a question of how you do it. Precious little detail has been provided. So far we have had your presentation this morning and then on 18 December there is a Rebuilding NSW document issued, which is all of four pages long and which does not give very much detail about how you are in fact going to structure.

Mr MIKE BAIRD: What is your specific question?

The Hon. ADAM SEARLE: The question is: Would you release the scoping study, at least in a redacted form, to remove anything that is truly commercially sensitive from the State's point of view so that we can see what is in it?

Mr MIKE BAIRD: We are following consistent practice with the scoping studies, both done not just by ourselves but—

Dr JOHN KAYE: Consistent with Eric Roozendaal?

Mr MIKE BAIRD: I mean, with the former Labor Government the process of scoping studies is pretty consistent.

Dr JOHN KAYE: There is a standard to set, Premier.

Mr MIKE BAIRD: I do not think, John, I can be more transparent than I have been on this.

The Hon. CATHERINE CUSACK: To help them draft their questions.

The Hon. PETER PRIMROSE: Premier, you refused to give the Parliamentary Budget Office a copy of the scoping study. Can you tell us why?

Mr MIKE BAIRD: It is probably the same reason, Peter.

The Hon. ADAM SEARLE: The Parliamentary Budget Office [PBO] is meant to cost all of the major parties' election commitments. This proposed transaction was your biggest commitment. Certainly, if it goes through, it will be the biggest transaction undertaken by the State Government.

Mr MIKE BAIRD: Yes.

The Hon. ADAM SEARLE: Why would you not provide to the independent Parliamentary Budget Office the material it asked for to cost your commitment?

Mr MIKE BAIRD: I think we should acknowledge the work the Parliamentary Budget Office did. I think they did a very good job.

The Hon. ADAM SEARLE: Sure.

Mr MIKE BAIRD: And I think it was a good introduction—

The Hon. ADAM SEARLE: But you just did not want to give it information to be able to pass judgement on your election commitment.

Mr MIKE BAIRD: No. I am saying that we had a lot of work with the Parliamentary Budget Office.

The Hon. PETER PRIMROSE: What section of that Act gave you the discretion to refuse to provide that?

Mr MIKE BAIRD: I refused nothing, Peter.

The Hon. PETER PRIMROSE: They asked for it and you would not give it to them.

Mr MIKE BAIRD: With the scoping study, there is commercial-in-confidence material.

The Hon. PETER PRIMROSE: No, that is not my question. Section 18 (1A) (a) imposes an obligation on a parliamentary leader to provide that information.

The Hon. CATHERINE CUSACK: Point of order—

CHAIR: He is just clarifying his question.

The Hon. PETER PRIMROSE: Where is the discretion for you to refuse to provide information in the Act?

Mr MIKE BAIRD: I do not think I have done—I have done the opposite, Peter.

The Hon. PETER PRIMROSE: You did not provide it.

Mr MIKE BAIRD: I have outlined to the people of this State an opportunity for a once-in-generation investment in the infrastructure we need—

The Hon. ADAM SEARLE: But not the detail of how you were going to do it.

Mr MIKE BAIRD: —by undertaking the lease of the 49 per cent.

The Hon. PETER PRIMROSE: You gave a synopsis to the people of the State. You did not provide the detail.

The Hon. CATHERINE CUSACK: Chair—

Mr MIKE BAIRD: I think our performance is viewed a bit more positively than yours.

The Hon. PETER PRIMROSE: We will come back to this.

Dr JOHN KAYE: It is a high bar that you are setting there, Premier. Premier, thank you for appearing today. Just as a quick matter of fact in relation to your director of policy, is that Nigel Blunden?

Mr MIKE BAIRD: No.

Dr JOHN KAYE: Who is it?

Mr MIKE BAIRD: Matt Crocker

Dr JOHN KAYE: Can I ask you briefly about the UBS matter? Why did those two gentlemen in your office go to Mr Matthew Grounds, who was the chief executive officer or the boss of UBS, rather than to the analyst? What message were they sending by doing that?

Mr MIKE BAIRD: It was just people they know in that organisation.

The Hon. CATHERINE CUSACK: Protocol.

Dr JOHN KAYE: So it was kind of through the networks—

The Hon. CATHERINE CUSACK: It would have been wrong to go to the analyst.

Dr JOHN KAYE: —rather than going directly to the analyst and raising the issue with the analyst.

The Hon. CATHERINE CUSACK: That would have been improper to go to the analyst.

Dr JOHN KAYE: I am sorry, Catherine, I am asking questions, if you do not mind.

The Hon. CATHERINE CUSACK: Sorry, John.

Dr JOHN KAYE: Rather than going directly to the analyst, they went to the chief executive officer [CEO] because, you are saying, Premier, the CEO is in their network. Is that right?

Mr MIKE BAIRD: John, yes. There is nothing in this. I know Labor has tried.

Dr JOHN KAYE: No, I am asking you this question.

The Hon. CATHERINE CUSACK: It has been outrageous.

Mr MIKE BAIRD: But I am just saying that they raised the fact that the uplift in the economy, in particular, was not included. Now, that is it. They did not ask them to change the report, full stop.

Dr JOHN KAYE: But they raised an issue with a report written by an analyst, not with the analyst and not even with the analyst side of UBS—I understand that you yourself were once an analyst—

Mr MIKE BAIRD: No, no—not one of those.

Dr JOHN KAYE: They raised it with Mr Grounds rather than with the analyst himself.

The Hon. CATHERINE CUSACK: If they had raised it with the analyst, he would say, "Why didn't you raise it with the boss?"

Dr JOHN KAYE: Do you think they had any concerns about section 912A of the securities Act and the implications that might have?

Mr MIKE BAIRD: I think it is simply, as I have said a few times here now, that within the context of seeing that report, this report has no inclusion of the uplift in the economy and actually has an uplift in number in terms of asset risk recycling, and that is it.

Dr JOHN KAYE: I am not asking will about content, Premier. I heard you say that.

Mr MIKE BAIRD: In simple terms, can you imagine a context where they would not contact someone that they know to say, "What is this report?"?

Dr JOHN KAYE: Where they would not contact a mate to get it fixed?

Mr MIKE BAIRD: No.

Dr JOHN KAYE: That is what you are saying.

Mr MIKE BAIRD: No, I am not saying that at all.

Dr JOHN KAYE: Why did they not go to the analyst? You have not explained why they went to the big boss and compromised the big boss' legal position rather than going to the analyst.

Mr MIKE BAIRD: I do not know, John, but there is no substance at all to what you are saying.

Dr JOHN KAYE: We will see, Premier. Can I just change topic for a moment and go to the revenues that the electricity industry currently brings in? By 2017-18 on your predictions in your PowerPoint slide, they will be bringing in $50.45 million a year to the private lessees—54 per cent of $109 million. If they have paid $13 billion, which is the price you need to get your $20 billion—you need them to pay $13 billion—that is a rate of return of about 0.42 per cent.

Mr MIKE BAIRD: That is the equity contribution.

Dr JOHN KAYE: That is what they will be putting in. There up-front cash will be $13 billion. They will be putting in $13 billion and they will be expecting a return. They will be anticipating, on your figures here, a return of 0.4 per cent. It is not a very good investment, is it?

Mr MIKE BAIRD: You will have to ask those that are investing, John.

Dr JOHN KAYE: Put the other way around, are you not concerned that potential investors will say, when they look at your PowerPoint here, "No, I'm not going to pay $13 billion."

Mr MIKE BAIRD: Well, I am actually much more positive in terms of the amount we are going to receive, as I have outlined, than I was a few months ago because, as I have outlined, we have a position where there is significant interest. Around the world with low interest rates, people are looking for two things: yield, potentially, but also defensive assets. Infrastructure assets are of great interest. But the important point—

Dr JOHN KAYE: But can we—

Mr MIKE BAIRD: This is important, John, because Queensland's not going ahead with their transaction puts much more competitive pressure into the market. The same funds that were going to be looking for a duplicate amount of transactions now only have one, so my expectation is, through that competitive pressure, that the State—

Dr JOHN KAYE: This is—

Mr MIKE BAIRD: You raised the point, so it is worth talking about, John. This is a point-in-time opportunity. The people of this State have a point-in-time opportunity to have the interest rates where they are and to have the sort of funds looking for—and Australian super funds are part of this—the opportunity for these types of assets. We are unlikely to see the market conditions together with the competitive pressure come together in a way that gives us a chance for a great outcome on these assets.

Dr JOHN KAYE: That is nice sales talk but the bottom line here is that with a 0.42 per cent yield on their money that they put in, they would get more money if they took down to the Commonwealth Bank. It does not seem to me as though your $13 billion, if we just talk about the yield—I will talk about the defensive nature of the assets in a minute—it seems to me that your $13 billon is not going to happen. Are you going to set a reserve price?

Mr MIKE BAIRD: The weighted average costs were—

Dr JOHN KAYE: Are you going to set a reserve price?

Mr MIKE BAIRD: Yes. There are two points. The weighted average cost of capital—where it is now versus where has been historically and into the future—obviously, that is a matter for those who are bidding to determine. But we are at historical lows for the weighted average cost of capital. Yes, we will have, as we always will have, with an unlived transaction, an independent steering committee that will make recommendations to government. I think, John, look at our track record. Look at how we have undertaken these sorts of transactions. Look at what happened on the port. I think you can see that we have the capacity to do that.

Dr JOHN KAYE: But they were all buoyant assets that were earning increasing rates of return but electricity, by your own figures, is an asset with a tenfold reduction in its dividends between 2012 and 2017. That obviously is still to be played out. Let us talk about defensive assets for a minute. You say that people are looking for yield here.

Mr MIKE BAIRD: Yes.

Dr JOHN KAYE: Well, we are not going to get yield here. Let us talk about defensive assets. Premier, I am sure you would be aware that Tesla, the electric car company, has now moved into the home battery market. Does that not mean that the asset that you are trying to lease out here has gone from being a monopoly to being in competition against solar panels and batteries? Does that not take out the defensive aspect of this asset?

Mr MIKE BAIRD: There is no doubt—I mean, as people run through the various processes and the risks that come with the business—that is something that they will have to consider. But, again, both in terms of the fluctuation of the revenue stream, which I highlighted, together with some of the market risks emerging, the State is actually exposed to those. I think we are in a better position to have less exposure to those types of risk, lower debt and lower risk to the State long term. As a package, I am agreeing with you; but, again, that is something that is well known. People with much greater expertise than I have will have the capacity to manage that in the short, medium and long term.

The Hon. ROBERT BORSAK: Premier, the State transmission and distribution entities currently carry approximately $20 billion in debt on their balance sheet. Will that be paid down as part of this transaction, or will those debts continue in the form in which they are?

Mr MIKE BAIRD: They will be reduced over time, as I highlighted. It is a significant amount of debt so you need to transition it out but, ultimately, we end up both in the total State sector with a significant reduction in our debt, which goes to circa $50 billion down to about $20 billion, and net government sector debt, which is actually eliminated. So we end up in a much stronger position.

The Hon. ROBERT BORSAK: What you are saying is that the State will continue to own that debt and that debt will not be taken on, effectively, either by a minority of Ausgrid and Endeavour, or the whole of TransGrid.

Mr MIKE BAIRD: No, they will.

The Hon. ROBERT BORSAK: So they are assuming the debt?

Mr MIKE BAIRD: The debts will be assumed by the private sector over time.

The Hon. ROBERT BORSAK: "Over time"? Who will be the trustees of the new government entity? Will the trustees or Government/Minister be able to sell down any of those shares in the future?

Mr MIKE BAIRD: We are setting up a governance structure, which I am happy to provide the detail for. It is not finalised, but I am happy to give an indication of what that draft structure will look like. But I have said that we will not be seeking a reduction in our ownership, and we will not be.

The Hon. ROBERT BORSAK: Are you saying that the trustees will not be required or asked to sell down any shares in the future?

Mr MIKE BAIRD: Correct.

The Hon. ROBERT BORSAK: Will the legislation mandate that?

Mr MIKE BAIRD: The legislation will reflect that we retain 51 per cent and we are leasing 49 per cent, and only 49 per cent.

The Hon. ROBERT BORSAK: That is right so the legislation will not allow for future sell-down of shares?

Mr MIKE BAIRD: That is right.

The Hon. ROBERT BORSAK: Will the Government continue to underwrite superannuation liabilities for all power sector workers?

Mr MIKE BAIRD: Yes, they would be transferred whole. Obviously part of the arrangements that we have to have is to ensure that the appropriate protections are there for the—

The Hon. ROBERT BORSAK: So there will not be any transferring of the businesses out of the existing entities into other entities that do not carry those liabilities? In other words, there will not be a separation of the assets and the liabilities by those now private sector organisations?

Mr MIKE BAIRD: In relation to?

The Hon. ROBERT BORSAK: Should the organisation decide, if it did separate the assets and the operations from the staff liabilities and something were to happen that they could not pay those liabilities, for example, in the area of superannuation liabilities, that there be no assets for anyone to access? We have seen that happen elsewhere.

Mr MIKE BAIRD: I am not aware of those circumstances. I cannot imagine that happening—are you aware of anything like that?

Mr COMLEY: No.

The Hon. ROBERT BORSAK: I believe that the notion that New South Wales will receive tax equivalents in the future is not correct if the majority of government-owned entities are sold to the private sector. Do you have any guarantee from the Federal Treasurer about that?

Mr MIKE BAIRD: Yes, that is something that we are considering. So the advice is that we do retain them. As I think I have said, I am happy to provide further advice on that.

The Hon. ROBERT BORSAK: Can the Committee get that?

Mr MIKE BAIRD: Yes.

The Hon. ROBERT BORSAK: If the private sector can run these companies more efficiently, that is, if you believe that, is it an admission of failure by government and a reflection on Networks NSW management?

The Hon. CATHERINE CUSACK: Yes.

The Hon. ADAM SEARLE: The question was to the Premier, Catherine.

Dr JOHN KAYE: Premier Cusack, what a frightening prospect.

Mr MIKE BAIRD: Catherine would do a good job.

CHAIR: Coalition Members should restrain themselves from interrupting questions.

The Hon. ROBERT BORSAK: I said, if the private sector believes it can run these companies more efficiently, if you believe that, is that an admission of failure by the Government and a reflection of Networks NSW management?

Mr MIKE BAIRD: Yes, there was a significant failure in the lead-up to the 2008 determination. We have made many changes since. So we have actually taken significant costs out of the business and started a trajectory down that was not there beforehand. The regulator has called it. The inefficiencies that were built up over a decade, or more than a decade, under Labor that we have started to unravel needed to be done. We have obviously started that journey but the regulator has moved it very abruptly to the end.

The Hon. ROBERT BORSAK: You say that you must sell these public assets to build new infrastructure, has the Government investigated any alternative funding options, including bonds, borrowing and stopping business sector tax cuts, et cetera? Do you admit that alternative funding options are available, particularly given past generations have not sold public assets to build?

Mr MIKE BAIRD: There is a raft of answers on that.

The Hon. ROBERT BORSAK: Future generations—

Mr MIKE BAIRD: If you look at the overall approach to infrastructure, you have it simply. You can either take your operating balance which is relatively modest, if you go and borrow, or there are constraints around how much you can borrow in terms of the credit rating metrics. If you go too high—and again we have a capacity to borrow but limited in terms of retaining the triple-A, we want to keep the triple-A rating which maintains the lowest possible cost of funds that we can have which means there is more money we can put into services, not less. The option is: do you just sit and wait? You saw the costs that comes with congestion—that is $29 billion that is the forecast to get to 2036—that is where we get to if we do not take action. The economy gets dragged which means that there is also less revenue than there would be otherwise.

In the context of where do we go, you can do nothing. You cannot borrow because you have breached the triple-A, and post global financial crisis that is even more important in maintaining options in terms of liquidity. You have got to have the highest possible rating to do that. So the only option you have is to look at your balance sheet, and that is what we have done. The concept of putting business taxes up, which was Labor's policy, slows the economy so you end up with less jobs, less investment and less revenue to the State. There is no magic pudding. We have considered all options and I have made a decision, together with the Government, which we went to the people of this State and said really three things. We want to build this infrastructure we desperately need, we want to grow the economy and at the same time there is less risk to the State in the longer term. I mean this is a good thing.

CHAIR: In the plan some of which is positive you have announced Electricity Price Commissioner Professor Fels. Would you outline his exact powers? Can he veto a bid if he thought the bid could not maintain lower prices et cetera? How far do his powers go?

Mr MIKE BAIRD: When the lease is put together he must say that the lease would not put upward pressure on prices in the short, medium and long-term. If he does not sign off then we do not do the lease. It is pretty binding.

CHAIR: His power lies in his ability to either sign off on the lease so he could actually veto the whole arrangement?

Mr MIKE BAIRD: Yes. It provides additional assurance to the people of this State which I wanted to do because of the scare campaign that was being run. We saw advertisement after advertisement that was telling the people of this State that prices were going to go up on the back of this lease which was not true. The Price Commissioner will provide the assurance. Prices are determined by the independent regulator and the lease—

Dr JOHN KAYE: Which prices are determined by the independent regulator?

Mr MIKE BAIRD: The Australian Energy Regulator.

Dr JOHN KAYE: Which prices?

Mr MIKE BAIRD: Network prices.

Dr JOHN KAYE: But not the retail prices?

Mr MIKE BAIRD: No.

CHAIR: There is always concern over the impact of the whole arrangement on jobs. It is quite clear, because of the Australian Energy Regulator's decisions that there will be a dramatic reduction in staff numbers. Will that finally come down to forced redundancies or voluntary redundancies? How will you be able to remove so many hundreds of people who are employed?

Mr MIKE BAIRD: This is part of where Labor does not want to really engage on but we will be engaging with employees and unions about that because we want to ensure that there is transition put around those employees. You have seen the numbers. It is coming down from over 10,000 to just over 8,000 jobs. That is retained jobs in the business. We need to work with them. One of the questions we have is whether there is an additional transition we could have. The regulator at this point has said no. So we need to work with them to determine what we can do but we will look at all options to ensure that they are given every opportunity, both in terms of time to transition out of the business but also the skills and support to seek alternative employment.

CHAIR: It sounds like there may be forced redundancies. Would there be some financial agreement with those employees to make up for the fact that they are losing their jobs, in other words, in the payout figure and so on?

Mr MIKE BAIRD: We will do everything we can in relation to it. We obviously have to work through the implications with the union and all stakeholders in the businesses. The Networks NSW chief executive officer is concerned about safety and reliability. We need to understand that and what the path is in relation to that. But, as I said, we have a fierce determination to get the prices down to the lowest level as quickly as we possibly can.

Dr JOHN KAYE: Are you going to appeal the determination?

Mr MIKE BAIRD: We are considering the options to take. I do understand that this is a significant structural change in the industry that is effectively brought along by mismanagement for more than a decade. We were starting to move there, to get it down towards an efficient base but the regulator has caught up with the businesses. I understand that that is something that we have to work with the industry on. We need to ensure that those workers are given protections and supports as they transition away from the business.

CHAIR: You have stated today that the enterprise agreements will all continue to stand. Will that apply if some of those enterprise agreements are over generous which has caused some of the financial problems?

Mr MIKE BAIRD: There is a range of opportunities, and that is where we will have a capacity to negotiate with the unions. We are open to creative solutions around this. We are very happy to discuss with them all options.

CHAIR: Have you had an indication as to where the bids might come from? What areas in Australia or overseas—the United States of America, China, Europe, Middle East?

Mr MIKE BAIRD: There is significant interest domestically and there is also interest internationally. The Ports had a 20 per cent international interest and 80 per cent Australian domestic superannuation. I think we can expect a very strong field. The competitive tension I spoke about is real. It is very positive in the sense that a number of players, both domestic and internationally are interested. If there is a bid with international interests then obviously the Foreign Investment Review Board will make the determination.

CHAIR: There were media reports that allege that when you were in China you had some discussions with a Chinese energy company. Is there an interest in that area?

Mr MIKE BAIRD: As I said, there is not only with that investor but hundreds, if not thousands, of investors I have met with over my time, both as Treasurer and Premier. Obviously I am interested in anyone that wants to participate in investment in New South Wales, and that is part of my job. But there is a transaction which is done independently with an independent steering committee that makes recommendations. If there are any bidders who come as part of that well the Foreign Investment Review Board will make a determination on any international participant.

The Hon. ADAM SEARLE: In your presentation you said that you were determined to implement the Australian Energy Regulator's final determination as quickly as possible. Does that mean you rule out any appeal to the determination by the State-owned energy companies?

Mr MIKE BAIRD: As I just said to the Hon. Robert Borsak, we need to consider all options around.

The Hon. ADAM SEARLE: So it is possible you will appeal those decisions?

Mr MIKE BAIRD: No, I am saying we are considering our position.

The Hon. ADAM SEARLE: In fact, you are not committed to implementing the final determination, as you said in your presentation?

Mr MIKE BAIRD: No, I am, but to do it as quickly as we possibly can.

The Hon. ADAM SEARLE: That is right which would mean you would not appeal?

Mr MIKE BAIRD: I have to take advice on matters of safety and reliability which we are working through. But I also think we have to ensure the human element as part of this. I know Labor's position on this which I find quite curious that the significant structural reform we are talking about means that there is lots of job. There are over 2,000 jobs that will come out of the sector. I need to work out the best possible way that we can transition them out providing support to them, both in the short-term but also the transition into additional employment. I think that is a reasonable request. We have the management decision that has come to us now that was built up predominantly for the previous 10 years of your administration, and we have to deal with that now. So I think ensuring we can do everything we can to get prices down as quickly as possibly can, and we support that, it is just a question of the profiling for the safety, reliability and the individual circumstances of the employees. We will be working through those obviously as quickly as we can.

The Hon. ADAM SEARLE: When will we see the legislation that will govern the transaction, including the legislation to do with the Price Commissioner?

Mr MIKE BAIRD: If you give me a tick today I will put it in this afternoon.

The Hon. ADAM SEARLE: Part of the job the Committee has been given is to try and, as the Chairman said, get to the facts in relation to your proposed transaction. At the moment we do not have key details. We are not allowed to see, even on a confidential basis, the scoping study, we do not have the legislation that will govern the transaction, we do not have the legislation that will govern the Price Commissioner. When will we have these details so we can do the job the upper House has asked us to do?

Mr MIKE BAIRD: I am not pre-empting this inquiry. I have been patient. It has been more than a year we have been running on this. I have outlined almost every day of that year the legislation we will bring in at the conclusion of this inquiry. Obviously I am very happy for the inquiry to run; it was a public commitment that the Chair made as part of the campaign. I am appreciating the opportunity to again outline it, but at the conclusion of the inquiry, which I am very confident on the basis of the facts—

The Hon. ADAM SEARLE: Except we do not have the facts. For example, we see in the media this morning that you have announced a range of protections, the powers that the energy Minister will have to step in and take over the businesses in certain circumstances, but we do not have the detail. A news report on the morning radio is not really adequate for us to work out whether or not your government is providing adequate safeguards around this transaction; we need the details. So I ask again: when can we see the legislation that will establish this transaction, that will establish the Price Commissioner, that will establish these powers that you say the energy Minister will have? You must have a draft.

Mr MIKE BAIRD: With respect, I think Labor has forfeited the right to constructively engage in this debate.

The Hon. ADAM SEARLE: That is an outrageous nonsense. We are here to try and get to the bottom of this.

Mr MIKE BAIRD: I am just saying that trying to now constructively engage is a bit rich given what we have seen over the past few months, but I say that the legislation will be there for you to see—

The Hon. ADAM SEARLE: Before this Committee has finished its deliberations so we can work out whether this transaction actually stacks up and is fair dinkum?

Mr MIKE BAIRD: It will come before the Parliament and you will have an opportunity to consider it in detail.

The Hon. ADAM SEARLE: So we do not get the scoping study, we do not get the legislation, so we do not know what safeguards are actually going to be proposed before—

Mr MIKE BAIRD: What scoping study did you ever release?

The Hon. ADAM SEARLE: Okay, I will ask you this question. Why will you not allow the Auditor-General to undertake a value-for-money analysis of this transaction before it is entered into?

Mr MIKE BAIRD: It is over, okay?

The Hon. ADAM SEARLE: The previous Labor Government, when it proposed an electricity transaction, was prepared to do that; why won't you?

Mr MIKE BAIRD: I have gone to the people of New South Wales—

The Hon. ADAM SEARLE: But with no detail. You have gone with a thought bubble: "We will sell this for $20 billion and we will build a few things over here", but the details are not on the table at the moment.

Mr MIKE BAIRD: Bob Carr said that we have been given a mandate and Labor should back that mandate. I would encourage you to go and have a chat to Bob Carr and see what he thinks you should do in relation to this. You are not constructively interested in this; you are looking for political pointscoring, an opportunity to continue conspiracy theories that do not exist and the provision of information that is trying to create some form of relevance for you. It is not there because you did not want to participate in this. I know that Labor wanted to do this and many players wanted to do it but they were never prepared to go to the people.

The Hon. ADAM SEARLE: This inquiry is about your proposed transaction.

The Hon. PETER PRIMROSE: The details.

The Hon. ADAM SEARLE: The details.

The Hon. CATHERINE CUSACK: You are asking for documents. Ask a real question.

The Hon. PETER PRIMROSE: You do not have a draft bill that you can present to this Committee to at least look at—it has not been prepared. Is that what you are saying?

Mr MIKE BAIRD: The legislation is being prepared. It is not finalised but it is being prepared.

The Hon. PETER PRIMROSE: Can we look at the draft?

The Hon. ADAM SEARLE: Can we see it before this Committee finishes its deliberations?

Mr MIKE BAIRD: What are you going to do with it?

The Hon. PETER PRIMROSE: That is the job we have been given by the Parliament.

The Hon. Dr PETER PHELPS: They are desperate to support it, I think, Premier.

Mr MIKE BAIRD: Maybe that is it.

The Hon. PETER PRIMROSE: That is the job we have been given by the Parliament.

Mr MIKE BAIRD: You have got a chance now and then you will have the legislation and you will have a second chance to consider it. I do not know the timing.

The Hon. PETER PRIMROSE: You will not give us the draft, you will not give us the scoping study, you will not allow the Auditor-General to look at anything, you will not allow the Parliamentary Budget Office, but you will present PowerPoints with nice pictures on it. We were given a particular job by one of the houses of the Parliament and we are asking you as Premier to give us details to allow us to do that job. We take it seriously. How about you let us do that? We were given a job; let us have the draft.

Mr MIKE BAIRD: You have got everything you need.

The Hon. ADAM SEARLE: The cheque is in the mail, is it?

The Hon. PETER PRIMROSE: I am asking you, except for the facts, except for the details—

The Hon. ADAM SEARLE: He is obviously not going to give it to us.

The Hon. PETER PRIMROSE: You are not going to give it to us. Okay.

Mr MIKE BAIRD: Like in a usual process, the legislation will be presented before the Parliament and you will have the capacity to consider that in detail. If you had a constructive input that I thought was good for the long-term interests of the State, at that point I am happy to consider it. I want to get this done.

The Hon. ADAM SEARLE: Because of your views you are not providing information to this Committee. Is that what you are saying?

Mr MIKE BAIRD: I am not doing what?

The Hon. ADAM SEARLE: What you just said is that because of your perception of certain members of the Committee or the Labor Party you are not prepared to provide information.

Mr MIKE BAIRD: I did not say that at all.

The Hon. ADAM SEARLE: That is exactly what you said.

Mr MIKE BAIRD: No, I did not.

The Hon. ADAM SEARLE: You said you will not provide the information before this Committee does its job.

Mr MIKE BAIRD: No. I said we are preparing the legislation.

The Hon. ADAM SEARLE: So can we see it before this inquiry is finalised?

Mr MIKE BAIRD: I do not know the timing—I know you are really fascinated with this—I do not know the timing of the legislation. My point is: whether it comes to you before the Committee concludes or whether it comes afterwards, you will have an opportunity to consider it, and you will have an opportunity to provide input on it.

The Hon. ADAM SEARLE: Given the importance of this subject matter and the significant size of this transaction, will you be prepared to come back to a subsequent meeting of this Committee to answer some more questions?

The Hon. PETER PRIMROSE: After we have heard the other witnesses.

Mr MIKE BAIRD: I am already bored. I cannot imagine—

The Hon. ADAM SEARLE: That is a pretty contemptuous statement.

Mr MIKE BAIRD: I cannot imagine a scenario where I would need to come back because—

The Hon. PETER PRIMROSE: So you are not prepared to?

Mr MIKE BAIRD: I have been open every day to answer every question.

The Hon. Dr PETER PHELPS: The Treasurer is coming next Monday. Annoy her.

Mr MIKE BAIRD: The Treasurer—everyone is coming.

The Hon. PETER PRIMROSE: You are contemptuous of the Legislative Council.

Mr MIKE BAIRD: No, it is not at all.

The Hon. PETER PRIMROSE: It is very contemptuous. It is a simple question. You will not give us the information, we have got a number of witnesses before us; we are simply asking you, on the basis of how important this matter is, would you be open to coming back, after we have heard from those other witnesses, to answer some more questions so we can provide a detailed report, as we have been asked to do, to the Legislative Council?

Mr MIKE BAIRD: In your first question time you ran out of questions.

The Hon. PETER PRIMROSE: We ran out of time.

Mr MIKE BAIRD: We have moved beyond political theatre into the reality.

The Hon. PETER PRIMROSE: I am asking: are you open to coming back so we can ask additional questions in relation to what you have said is the largest—

Mr MIKE BAIRD: You have the opportunity to put whatever you like on notice.

The Hon. PETER PRIMROSE: We have had 10 minutes.

Mr MIKE BAIRD: You have the opportunity to put whatever you like on notice. Put whatever questions—

The Hon. PETER PRIMROSE: We are asking you to come back. A straight no—just say it: "No, I am not prepared to provide a parliamentary committee with information".

The Hon. CATHERINE CUSACK: You can ask your questions now.

Dr JOHN KAYE: Point of order: The Government members are continually using up time with interjections which are disorderly.

The Hon. CATHERINE CUSACK: We are not. We have been very patient and this is ludicrous.

Dr JOHN KAYE: This is totally out of order.

Mr MIKE BAIRD: Put them all on notice and we will answer every question you want.

Dr JOHN KAYE: Premier, can I ask you about the jobs guarantee issue? Let us start at another place though; let us start at the point the existing enterprise agreement does not allow forced redundancies. How do you propose to deal with the 2,750 jobs that you say need to be exited from the wires and poles undertaking—

Mr MIKE BAIRD: The regulator has.

Dr JOHN KAYE: The regulator has given the money—that is not the regulator's figures. The regulator purely cut the money and you have responded in that fashion. Given that is the case, how are you going to do that if you do not have forced redundancy power?

Mr MIKE BAIRD: That is something obviously we have to negotiate both with unions and, potentially, Fair Work. That is something that needs to be worked through.

Dr JOHN KAYE: Which means there is a live scenario that you are trying to sell these entities—

Mr MIKE BAIRD: Lease.

Dr JOHN KAYE: —lease a percentage of entities with $350 million of employment liability unfunded by the AER. Is that not like a third problem with your leasing process, that you have got this $350 million—you call it a $350 million liability—you cannot sack these people under the existing enterprise agreement, Fair Work might not change its enterprise agreement; does that not take $350 million in an ongoing return off the sale price?

Mr MIKE BAIRD: It is a challenge. I am not going to pretend it is not a challenge; it is, and that is part of what our argument has been. Our argument has been: let us get down to the lowest possible price but give us a clear path and an opportunity to transition there. But the regulator has made the decision at the moment: no. So this is something we need to consider.

Dr JOHN KAYE: If you are unsuccessful, if you do not win an appeal with the regulator, Fair Work does not play ball with you, you have got 2,750 additional employees you are trying to privatise, will there be jobs guarantees in the privatisation?

Mr MIKE BAIRD: We will be discussing the protections we put in place, but it is obviously for the 8,100-odd jobs that are funded as part of the regulator's decision.

Dr JOHN KAYE: So the jobs guarantee will only be for the 8,100?

Mr MIKE BAIRD: Whatever the protections that are there.

Dr JOHN KAYE: Any protections you put in place will not cover the 2,750 employees—

Mr MIKE BAIRD: How can they?

Dr JOHN KAYE: But you are saying they are not going to.

Mr MIKE BAIRD: They cannot. The regulator has made the decision.

Dr JOHN KAYE: So there will be guarantees for the 8,100 who are funded by the AER determination?

Mr MIKE BAIRD: That is part of the negotiations that obviously we will have with the union.

Dr JOHN KAYE: But we are going to see legislation sometime soon. Will that legislation contain job guarantees?

Mr MIKE BAIRD: That will be my expectation.

Dr JOHN KAYE: Do you accept that it is fairly hard for this Committee to write a sensible report on this issue if we do not know what the jobs guarantees are?

Mr MIKE BAIRD: If there are specific questions that you want to put—and, again, if you can put them on notice I am happy to do that, but, again, as you rightly say, we are in the midst of negotiating this and the decision has come down and there is a range of options that we need to consider: how we deal with both existing instruments, how we deal with timing and, importantly, I understand the impact this is going to have on those individuals who lose their jobs. I want to do everything we can to support them and I find it incredible that Labor seems to be silent on this issue.

Dr JOHN KAYE: I do not care about Labor; I am more interested in those 2,750—

CHAIR: We will move on to Mr Borsak now.

Dr JOHN KAYE: I think Mr Borsak is allowing me to continue.

CHAIR: Do you have any questions, Mr Borsak?

The Hon. ROBERT BORSAK: Not right now.

Dr JOHN KAYE: So specifically, those 2,750 employees will be asking themselves what is going to happen to their jobs. You are in a position to answer that right now. You can say the State will take on the $350 million cost, "we will force a private lessee to take on 50 per cent of that cost or we will find a way of dumping them". That is a specific question to you: Are you going to stand by those people and cut a reasonable deal for them?

Mr MIKE BAIRD: We are in negotiations with it. Your argument is if the State keeps them on, there is no role that is funded as part of the businesses and, in addition, that is $350 million a year. That is, what, 3,500 nurses or teachers or police. That is the obvious challenge that we have. What we want to do is to ensure that we get an outcome that looks after the workers that transition out and we get a path down to the lowest possible prices we can for consumers and businesses across the State, and that is a challenge.

Dr JOHN KAYE: Have you looked at the alternative of growing the businesses into the unregulated areas that the businesses pulled out of and creating at least some jobs for those people?

Mr MIKE BAIRD: There are opportunities but, again, the regulator has made a decision on the business right now; it has benchmarked all the businesses across the country.

Dr JOHN KAYE: That is not correct. The regulator has made a determination on the regulated part of the business.

Mr MIKE BAIRD: Correct.

Dr JOHN KAYE: There was in the past unregulated things—"unregulated" sounds bad—things which were done outside of what the regulator looks at: other businesses installing substations or transformers in the basements of large high-rise developments, for example. Under public sector ownership would we not have the opportunity of pushing back into those areas and creating jobs for those people?

Mr MIKE BAIRD: I do not think we can recreate an industry or anticipate an industry on the back of those jobs. Those jobs now, because of the efficiency of this business across the country, the regulator has said just 8,100 employees are required.

Dr JOHN KAYE: That is not correct. The Australian Energy Regulator [AER] was comparing regulated business to regulated business. This business has a regulated part to it but has in the past also had a part that was not looked at by the regulator. You can expand into those areas and in fact probably improve the efficiency of the regulated part of the business through better workforce allocation by having unregulated parts of the business.

Mr MIKE BAIRD: I am not disputing that there could be potential for additional revenue streams or an expansion in unregulated areas, but that is a matter that obviously needs to be considered as part of the new arrangement.

CHAIR: Was there any consideration at any stage of whether it was possible to have a public share arrangement in which the electricity industry could stay in public hands through the public buying shares?

Mr MIKE BAIRD: By the initial public offering [IPO] as part of the lease. That is one of the considerations. The challenge is trying to get it right in terms of competition and value for the taxpayers. The amount of competition that is there suggests that we would get a better value for the taxpayer through trade sales, but there may well be an opportunity for an IPO later in the piece. It remains an active consideration and obviously that is something that we can bring back once we have got through the first and potentially the second transaction. The advice is: maybe for the second and, if not, potentially for the third lease that we undertake.

CHAIR: I note that the proceeds will go into the Restart NSW fund and you will then seek interest on that fund. What is the estimated income from that fund as the proceeds of the lease?

Mr MIKE BAIRD: There are the proceeds and over the duration they expect to receive an interest rate. The timing of that is obviously determined by what we do with the final profile. If we have a capacity with the additional money that we have in Restart to bring forward we obviously would rely less on the interest earnings because we are using the additional money quicker. But that is something to be determined. The rate is effectively set at a government bond rate that is obviously recommended by Treasury in relation to the management of those proceeds.

CHAIR: You want to get each of these billion-dollar projects moving quickly, so actually the Restart fund money will be used up rapidly. The $20 billion will not be sitting there for 10 years.

Mr MIKE BAIRD: Taking the second harbour rail crossing as an example, the expectation is that it will take 10 years to complete. So you can have the proceeds but it takes a while before you can use all of the funds because of the natural profiling of that project. That is what gives you a capacity to earn interest proceeds as you are doing as much as you possibly can to get infrastructure going.

CHAIR: Thank you again for agreeing to appear before the Committee. We appreciate it. We have the Treasury coming and I am sure the Treasurer would have answers to questions as much as you would.

Mr MIKE BAIRD: She is looking forward to it, Mr Chair.

CHAIR: Committee members can challenge her with their best question.

Mr MIKE BAIRD: Thank you, Mr Chair. I appreciate the opportunity to appear. Again, if you have any other specific questions please put them on notice and I will be very happy to answer them.

CHAIR: The Committee has resolved that answers to questions on notice be returned within three calendar days following receipt of the transcript. The secretariat will contact you in relation to the questions you have taken on notice.

(The witnesses withdrew)

(Short adjournment)

MATTHEW WARREN, Chief Executive Officer, Energy Supply Association of Australia, and

KIERAN DONOGHUE, General Manager, Policy, Energy Supply Association of Australia, affirmed and examined:

CHAIR: The Committee appreciates your appearing at short notice. Would you like to make a brief opening statement?

Mr WARREN: The Energy Supply Association of Australia [ESAA] welcomes the opportunity to make a submission to this inquiry into the leasing of electricity infrastructure in New South Wales. The ESAA is the peak industry body for the stationary energy sector in Australia and represents the policy positions of 36 electricity and downstream natural gas businesses, including both private and publicly owned businesses across the entire supply chain—generators, retailers, distribution networks and transmission businesses. These businesses own and operate some $10 billion in assets, employ more than 51,000 people and contribute $16.5 billion directly to the nation's gross domestic product.

The ESAA was created in 1918 as a network to exchange technical information between government-owned electricity commissions, which at the time were completely isolated from each other. Over the past century it has gradually connected the state grids, evolved a national electricity market, created a national regulator, deregulated the markets and partially privatised the businesses. The electricity industry comes from a long history of government ownership. We embrace the evolution to privatisation and deregulation because we think privatisation is a more effective and efficient way of managing the transformation that the sector has begun in the twenty-first century. Energy has already begun this transition from utility service to consumer good. Consumers are now playing an increasingly active in how they consume and generate electricity and the role for government is therefore changing. It has evolved from a provider of an essential service to a regulator of the service.

That Australian Energy Regulator [AER] will soon regulate all networks in Australia. Significantly, it has announced major cuts in the spending of New South Wales networks, which will result in lower energy bills. The ESAA represents businesses that both support and oppose the scale of these cost reductions by the AER. We observe that these cuts and the resulting lower energy costs and job losses will occur regardless of who owns the New South Wales network assets. Governments will continue to manage this regulatory process. Even if government were to retain control of the networks, we cannot regulate the future. Change is the new normal in electricity. A growing number of private businesses are offering a growing range of small-scale generation and operational systems. Owning the actual assets is no guarantee of being able to control the evolution of the system. The rise of distributed solar and the potential for shortage and falling demand from both industrial and residential sectors are reshaping this industry. It is exciting and risky. It is unclear how the industry will evolve over the next decade and beyond, but the level of risk now in the industry was not present 10 years ago.

In the same way that it is hard to imagine Apple being a government-owned business, it is hard to see what benefits government ownership can deliver to networks in New South Wales in the twenty-first century. They could evolve quickly in many different directions. They are now exposed to being devalued or made redundant by new technology shock. This risk is real, it is new and it is not going away. Since Paul Keating introduced competition policy in the mid-1990s, the role of government in the electricity market has been evolving. It has evolved less to owning and running businesses and more to ensuring that a strong and appropriate regulatory framework is in place for those parts of the industry that are not exposed to direct competition. What is clear from the independent benchmarking of Australian networks is that private ownership removes the political interference in the operation of those businesses and allows them to deliver sustained efficiency and lower costs, which is clearly a benefit for consumers. It also frees up these businesses to engage actively with the transformation they face in the twenty-first century.

The Hon. ADAM SEARLE: I refer to the recent Australian Energy Regulator determination. Assuming it stands, what does your organisation believe it will mean for residential and small-business consumers?

Mr WARREN: I think it will deliver a 9 per cent reduction in the cost of networks in New South Wales.

Mr DONOGHUE: That is the impact on retail prices. There will be a bigger change in the network element. It is important to note that once that decision has been made it stands for the next five years regardless of what transpires in terms of transactions on the assets.

The Hon. ADAM SEARLE: I specifically referred to small business operators and residential consumers. Is the key impact the 9 per cent reduction in the retail price?

Mr DONOGHUE: Yes, in the short term it will be about the price decrease.

The Hon. ADAM SEARLE: What is the impact of the determination on the value of the businesses? These businesses will see their revenue significantly reduced if the determination stands. Surely that must have a downward impact on the price of the assets or businesses.

Mr DONOGHUE: Buyers of assets such as these will typically take a long-term view of the value of the businesses. They will also typically assess the overall regulatory framework into which they are buying. Obviously, to some extent the recent decisions will be factored in. Anyone in the business of trying to buy these assets would do so only if they believed that over the long term they could outperform the regulator's assumptions. There is no way that I would be in a position to put a figure on it. Typically when you are buying an asset of this type, the conventional way of putting a value on it is to look at the regulated asset base at the time of the sale and then—depending on how bullish buyers are about their ability to outperform the regulator's assumptions—pay a premium to asset base. I do not see any reason that parties who are interested in buying the asset would not still be broadly optimistic about their ability to earn a return over the longer term.

The Hon. ADAM SEARLE: So they look beyond the five years of the determination?

Mr DONOGHUE: Yes. They will be successful in doing that only if they can outperform the regulator's assumptions. The reason we have incentive-based regulation and the five-year resets is that when they are successful the regulators can see that they have been able to operate the network more efficiently and it can adjust the revenue for the next price control period. Therefore, the company will benefit for a few years and then the efficiency is passed on in the form lower costs to customers. I worked for the British regulator and that is the basic process that it had in place for more than 20 years. Over that time it has delivered significant real falls in network costs. It has also done so in Victoria.

The Hon. ADAM SEARLE: But asset prices are typically a multiple of the revenue that an operator can extract from the business. The regulator's decision reduces the income of these businesses by about 30 per cent. Surely that puts downward pressure on the price of the asset unless the owner thinks there are ways to extract revenue from a business that is not being extracted by the current operator.

Mr DONOGHUE: The business has a number of options. First, it will seek to run the business more efficiently in line with the expectations set by the regulator. Secondly, private owners of network assets will look for other business lines which are not regulated but which have some connection. For example, some of the Victorian businesses offer competitive metering services outside their own patch. They do that for larger customers, and that is a competitive and unregulated market. They look to leverage their expertise in the regulated network business to offer similar types of services elsewhere.

The Hon. ADAM SEARLE: But there is nothing to stop the current state-owned enterprises from doing that; is there?

Mr DONOGHUE: Formally, no. However, that is obviously a matter of government policy. That then calls the Government's role into question. Is it the New South Wales Government's role to engage in what might be to some extent risky ventures offering services in other States?

The Hon. ADAM SEARLE: At the moment these are state-owned corporations and they have their own independent management, although the Government can direct the publication of a direction in the *NSW Government Gazette*. I do not think that has happened in recent times, if ever. To all intents and purposes, these are independent businesses. The sort of directions you are talking about could be pursued by the current businesses without any privatisation or leasing.

Mr DONOGHUE: In principle, yes. However, in practice typically government-owned businesses find it hard to be as agile and as nimble in response to changes in the market as privately owned businesses, whose shareholders and management are oriented to get the best returns given the risks. Government businesses, even if they are set up with a notionally independent structure, often find themselves being required to pursue other policy objectives. They do not necessarily have that same a laser-like focus on efficiency, managing risks and searching out new business opportunities.

The Hon. ADAM SEARLE: The Premier's presentation this morning foreshadowed the loss of about 3,000 jobs across the companies to be leased as a result of the determination if it stands in its current form. What other efficiencies do you think are available to be gained under a privatised operation?

Mr DONOGHUE: Frankly, with any business or organisation finding efficiencies is an iterative process. What may be available often involves finding ways to work more flexibly, doing the same with less, and efficiently deferring investment, for example, by seeking out demand-management opportunities instead of building new parts of the network. A range of opportunities exists. Those pursued can be determined only by the management of the business because detailed technical decisions and trade-offs must be managed.

Mr WARREN: The other thing we have noticed in Victoria is the difference between a commercially run and a government-run network. The strategic direction of the governance arrangements is different. Commercially owned networks plan like a normal business and they invest over smoother timeframes. The governance arrangements for government-owned networks can be interfered with by the political cycle. There can be pressure on those businesses to return greater revenues to their owners or to suppress increases in electricity prices. Therefore, they are more volatile, and we have seen that in New South Wales and Queensland in particular.

The Hon. ADAM SEARLE: You mentioned in your opening remarks the risks to the network value arising from changes in technology. If that is true, there must be significant risks for any purchaser?

Mr WARREN: Yes.

The Hon. ADAM SEARLE: In that case is there not a risk that a purchaser, if they are going to stump up billions of dollars to buy access to the asset or the business, they might require certain activities or undertakings by government to protect the value of that investment? Is that not a real public policy risk, unless we get to see the details of the transaction?

Mr WARREN: I would imagine it is more that you will see those risks incorporated into the pricing. It will come down to how many different bidders there are for the business and they will factor in those various risks and that will vary the price they are willing to pay.

The Hon. ADAM SEARLE: If the risks are profound and significant, that would reflect in a lower purchase price, would it not?

Mr WARREN: That will be their assessment of what they think might happen in the future. But also they will evaluate how they think that may change over the future and what influence they can bring to bear on that. They will make those commercial decisions when/if they get to that chance.

Mr DONOGHUE: And they will back themselves to be able to manage those risks. It does not mean they expect the status quo to continue forever, but it does mean that if, for example, there is a much greater move towards use of distributor resources like people's own generation, storage, micro grids, they will be able to leverage off their current expertise into successfully competing in those markets and in that way preserve the overall value of the business, which is what specifically matters, rather than the specific regulated outcomes of the regulator.

The Hon. ADAM SEARLE: Except this is not a competitive market. These are monopoly assets. Whoever gets the lease or the licence to operate gets a monopoly, then they will not face competition from anybody.

Mr WARREN: Not in the short term, but one of the risks is that the dynamic nature of technology changing this market means that they may be subject to and may find themselves in competitive markets by stealth gradually as they develop technologies.

The Hon. ADAM SEARLE: You mean like homeowners buying the Teslar battery or something like that?

Mr WARREN: Networks are probably more likely to be an early adopter of storage technologies of scale because they will benefit from the scale of deploying that technology. If they do, they will find themselves transacting electricity at different times of the day. So they are suddenly moving gradually into a competitive arrangement and competing with other generators in the market. I think what we have learned in the last 10 years, especially with the solar experience, is that disruptive technology in these industries in no different to other industries and it can occur very quickly and change the nature of the market very quickly.

The Hon. PETER PRIMROSE: Until we see the legislation, we are not sure of the governance arrangements. But what we are sure of at the moment is the Premier saying that 49 per cent of the business will be at least privatised or whatever you wish to call it. You mentioned accordingly that those enterprises that are in private ownership are more likely to take risks and particularly risks interstate. However, these assets will be 51 per cent still owned by the public of New South Wales. Can I ask you to comment on that? It would seem to me that presumably the owners would have a bit of an impetus, if they wished to take risks, to be moving for greater control and not have that shackle of public ownership as you have implied.

Mr WARREN: It is a reasonable observation. Again, it will come down to who wants to buy the assets and for what reason. The types of buyers will be different. There will be infrastructure funds looking to manage risk internationally so they may find the existing arrangements highly desirable because it is a different type of risk in a different market to what their assets portfolio is in other economies. It may be somebody with a more entrepreneurial bent but they will value the assets differently. They will assess what they think they can do with the existing arrangements and how this market will evolve over time and what opportunities they can bring to add value to that business. So there is not one type of buyer; there is a multiple range of different buyers with different intents in owning those assets.

Mr DONOGHUE: But generally these assets are considered in the scale of risk across the spectrum of business of being at the lower end, so when we talk about taking risks it is not in the sense of outright speculation. It is very much in the sense of manage risks to find that extra 1 per cent or 2 per cent of return, rather than casino style speculation.

The Hon. PETER PRIMROSE: I accept that, but again, not knowing the Government's arrangements, 49 per cent, do you believe that in this circumstance a private operator would be more likely than a government operator to take those risks?

Mr DONOGHUE: I think they will be more attuned to opportunities, which is the other side of the coin from risks. Whether or not they will go through on all potential alternative business ventures is going to be a matter for the shareholders as a whole to agree on. It may be that the private shareholder may be able to carry on some of those businesses and develop it as a separate entity that is not part of the government owned section.

Dr JOHN KAYE: I just want to be clear who we are talking to here. You have 36 members, is that correct?

Mr WARREN: Yes.

Dr JOHN KAYE: Some of those potentially could be bidders for the assets that we are talking about?

Mr DONOGHUE: Yes. Technically speaking, it would be their shareholders who would like to be the bidders.

Dr JOHN KAYE: So to some extent you are also representing people who are potential bidders and people who could potentially make substantial amounts of money from the transaction?

Mr DONOGHUE: We also represent Networks NSW and TransGrid, which would be the subjects of the bid and whose senior management may be directly personally affected by any takeover.

Dr JOHN KAYE: Whose senior manager is actually on the track record saying how enthusiastic he is for the transaction, in a strange thing which we will pick up later. Mr Warren, in your introduction you said that privatisation would be a more efficient way to manage the transformation of the industry. I am sorry I did not have a copy of any submission from you so I am just jotting down notes as I go. Why?

Mr WARREN: Because the nature of the changes are occurring at a pace which is disruptive. What we see is that if you want to deliver the transformation efficiently as well as managing those changes, then private businesses to date appear to be able to respond more dynamically. They are interested in seizing those opportunities and taking them. So we have noticed from within the industry that they are able to respond quicker.

Dr JOHN KAYE: So what you are saying is because their profit reporting cycles are short, they respond quickly—

Mr WARREN: They are incentivised—

Dr JOHN KAYE: —whereas a government enterprise will take a longer term view.

Mr WARREN: What we find with government enterprises is that they are influenced in the way they manage their businesses by the political cycle. They operate in three-year government cycles, according to whether there is pressure on the Government to supress electricity prices or whether there is pressure on the Government to increase reliability standards, and it tends to be more volatile in the way they respond to those challenges than private businesses that are not constrained in the same way and anticipate and respond to those in a more real time business response.

Dr JOHN KAYE: Can you give us an example in New South Wales where something adverse has happened because of public ownership and pressure for reduction in prices?

Mr WARREN: In New South Wales and Queensland in 2004 there were a series of blackouts that occurred as a result of system faults, both at generator level and in the system. The result of that was a number of announcements made by the Premiers of both those States at the time to commit large sums of money to ensure reliability standards—

Dr JOHN KAYE: That was not about bringing the prices down. I asked you about prices. I think we are all aware of the gold plating scenario you are about to roll out, which is a shameful indictment on the previous Government. The question I am asking you is about prices. You said downward pressure on prices.

Mr WARREN: Yes.

Dr JOHN KAYE: Can you give me an example of where governments have done that in New South Wales in a way that has been adverse for the industry?

Mr WARREN: I thought I was. Governments have set reliability standards at levels which were probably unnecessary but over-responding to the political pressure of the blackouts at the time.

Dr JOHN KAYE: That is a reliability question, is it not?

Mr DONOGHUE: But the reliability issues arose because of low levels of investment in the preceding decade, which was done so that governments did not have to push through price rises to pay for that. So the response to that was like a catch-up investment and one that occurred at the time in the aftermath of the global financial crisis when capital became more expensive for a while.

Dr JOHN KAYE: So to some extent you are talking about the incompetence of specific governments rather than the underlying structure of public ownership?

Mr DONOGHUE: No. It is endemic to the situation where governments own assets that are long lived. If governments find themselves with constraints or perceived political constraints in either raising prices or taking out more debt, they may defer what would otherwise be efficient investment in maintaining the networks. That is not a partisan perspective.

Dr JOHN KAYE: Mr Warren, in your answers to questions and your initial statement you talked about the change in the electricity industry happening gradually. Am I correct in saying there are almost

4,000 homes in New South Wales with solar panels, with more than one kilowatt of solar panels? Many of those would be in a position to rapidly install batteries and disconnect from the grid. Is there not a risk of fairly rapid transition?

Mr WARREN: Anything is possible but in the short to medium term that seems unlikely.

Dr JOHN KAYE: Why?

Mr WARREN: There remain compelling reasons why we live in cities and why we benefit from the economies of scale and scope of infrastructure that they provide. So whether it is water, electricity, telephony, we have seen the case for solar quite clearly because even when you remove many of the subsidies it is now competing at a levelised cost of electricity, which is at or at a lower price in many cases than the retail price for electricity. So that makes sense. Currently, the offering from, say, Teslar is still—while some households will do it, the best deploy we can see it is still not cost effective to install that on a rational basis. We have like we have with solar; some households interested in the technology will deploy it anyway and they will experience and explore that household.

The cost of storage may continue to come down and as it does the maths on that will change. But the impacts of removing your house from the grid entirely when you live in the middle of a city makes no sense It means you deprive yourself of electricity at times when you need more than you can generate and store. In the short to medium term we think that is an extremely unlikely event but in the more distant future we may see micro grids and a whole range of completely different shaped networks operating that we do not consider today.

Dr JOHN KAYE: Let us go to this more distant future, and you and I will disagree on how rapidly that transformation will happen. What you call the more distant future, I think it is the medium term future, where the economies of battery come down, the economies of renewable distributed generation continue to decline or improve, whichever way around you put that. Is it not true that there is a more economically efficient solution where people stay connected to the grid but they use the grid as a way of trading energy backwards and forwards, possibly buying some from central station generation but largely trading between relatively small and medium size participants.

Mr WARREN: Yes.

Mr DONOGHUE: And that is much more likely than having one million homes in Sydney, each becoming completely isolated from each other in an electric sense.

Dr JOHN KAYE: Does that not depend upon the amount that people are being charged to maintain their connection to the grid?

Mr DONOGHUE: The issue at the moment is that in general we do not have good signals that we sent to people regarding the impact of when and how they choose to use electricity. We effectively treat the cost of using a unit of electricity the same, regardless of whether it is on a mild sort of Sunday autumn afternoon or whether it is five o'clock in the peak of summer. We have built billions of dollars worth of infrastructure to help meet those summer peaks or, in some cases, particularly in the interior of the State, sometimes it is winter peaks. The reason we have done that is because in the past the meters we have had have not been able to measure and allow customers to be billed that way. Now that we have the ability to install digital meters, that opportunity has arisen. There are challenges in that because—

Dr JOHN KAYE: Can I interrupt you. I am fascinated by the topic of digital meters, but I was going somewhere else with my line of questioning. Going to the issue of that transformation, and digital meters are part of that—not to leave Mr Donoghue out entirely—but it is about trading, smart meters, smart grids and so on. What guarantees do we have that private sector entities will find it in their best interests to make that transformation, rather than keeping us trapped in the 1950 electricity arrangements that we have at the moment, which is central station power being brought through high voltage lines to the city and then distributed through lower and lower voltage lines, which is almost entirely a one-way flow?

Mr WARREN: Primarily it is competition. If you do not provide that service, others will. We have really begun to witness—

Dr JOHN KAYE: Competition wire to wire? There is only one set of wires. You are not suggesting somebody else will string wires up?

Mr WARREN: No, but if you are not providing the ability for consumers to do that, consumers will make the choice to generate and store their own electricity. There is no resistance to that process occurring. On the CSIRO's future grid forum, on the most aggressive scenarios postulated by all stakeholders, the networks still played a critical role in moving electrons around from different types of renewable and conventional generation. They become more critical to balancing the grid as the transformation occurs. It is unlikely we will see them made redundant, but their role and function may change as the scales change.

Dr JOHN KAYE: How do we know those transformations—which may require some decisions that might not be in the best profit interests of the owners, the networks, but would be in the best economic interest of the State—are going to happen?

Mr DONOGHUE: The design of the regulatory framework is to align those two, and the regulatory framework needs to work—

Dr JOHN KAYE: But the regulatory framework at the moment is based on driving efficiencies down to the least cost. It does not do anything about transforming the investment or the operational paradigm of the network. There is no guarantee—

CHAIR: Let the witness answer the questions.

Dr JOHN KAYE: Let me ask you this question: Is it not true under the existing regulatory framework that if people start disconnecting from the network, the operators will continue to recover the same amount of money, just off higher prices?

Mr DONOGHUE: The Australian Energy Regulator [AER] has moved to applying a revenue cap to all networks, regardless of whether they are privately or publicly owned. In fact the privately owned Victorian distributors will be the last to move on to that. That part of the framework is not connected to ownership. There are a number of other aspects to the regulatory framework beyond merely trying to drive efficient cost. There is a recent rule change to facilitate greater and better generation being connected. That was put through a year ago, so that is a step towards the kind of future that you are envisioning.

Dr JOHN KAYE: That is not an AER rule, right?

Mr DONOGHUE: The [AMC] is the rule-maker. They made the rules. The AER's job, on the face of it, is to enforce that rule. Certainly anecdotally many of the businesses that have been most responsive to applying that rule—and I have spoken to the person who was one of the main proponents of that rule change—have been the privately owned businesses. Several of those that have dragged their feet have been Government-owned businesses. I would strongly reject your assertion that Government ownership would somehow be better fit to transitioning to this future they are visioning. Frankly, we do not know what the future will look like. All we can do is put into place the right incentives to drive efficiently run networks, which, in its broader sense, includes providing those opportunities to customers to trade electricity, and that applies regardless of whoever owns the networks.

CHAIR: Moving on to other questions, you have said you represent 36 different energy suppliers and so on. Within your association do you anticipate people being interested in bidding for the New South Wales poles and wires?

Mr DONOGHUE: Some of the owners of our member businesses are, we understand, interested in bidding. In practice we are typically one removed from those investor groups, whether they be local or overseas investors.

CHAIR: That is not discussed within your association as such?

Mr DONOGHUE: No.

CHAIR: It is left to the others?

Mr WARREN: It breaches a few competition laws as well. We do not discuss commercial strategy inside the walls of the association.

CHAIR: Do you anticipate buyers from overseas countries such as the United States or China? Do you have contact with overseas suppliers as well?

Mr WARREN: We have no idea, but we assume there would be interested parties from all over the world in the same way that Macquarie Bank owns networks in parts of Europe and the United States.

Mr DONOGHUE: Having a wide range of potential buyers would be seen as a very positive sign for any transaction.

Mr WARREN: For price.

CHAIR: It appears clear people in New South Wales who are experienced in that industry will be made redundant. Would you see opportunities for those people to be re-employed in other companies associated with your association either in this State or other States?

Mr WARREN: Very much so, Mr Chair. The important difference in this industry compared to, say, the car industry, is that if the car-building industry in Australia died off a significant retraining challenge would exist. The vector for electricity is not going anywhere. It will continue to be a crucial and growing part of the economy in the twenty-first century. The expertise that those workers have currently will be easily reapplied. The knowledge of electricity and how it works will be highly adaptable in the twenty-first century, which is good for them.

CHAIR: Does your association get involved in trying to assist redundant workers such as advertising or listing companies that have vacancies and so on?

Mr WARREN: We have not done that to date. We have not seen that kind of transition of the workforce of this scale. I do not think that is going to be our remit. One of the positives of this sector is we think that that skill base will be highly desired and highly useful in other businesses as this market evolves. They will not be removed from the workforce.

CHAIR: Solar power has been attractive to a lot of consumers. It was mentioned that 400,000 homes in New South Wales have solar power. I note one company has offered to install solar power panels so that they maintain control over the supply of electricity. Is that one of your associations?

Mr WARREN: A number of businesses are now moving to leasing. It is a different arrangement and it is to try to find new opportunities in the market for solar where you basically own the panels and you lease the roof space. The provider of the panels pays you a dividend and controls the electrons coming from the panels. It is a variance on the business model of owning the electricity and selling it back yourself.

CHAIR: Are any of your member associations promoting that now?

Mr WARREN: Yes, a lot of companies.

CHAIR: I suppose the companies still have control or ownership over the supply of solar power?

Mr WARREN: For some customers there is still an up-front cost for purchasing the panels. It is a different business model that smears the up-front cost over the life of the panels, so it enables more people to enter the solar market, if you like, even if they do not have the money available to purchase the systems up front.

CHAIR: They do not have the capital layout to pay for the panels?

Mr WARREN: Yes. This is the kind of evolution of a whole range of different business models that will continue in this market. Whether it is solar leasing or battery leasing or other technologies, there will be a greater service component that continues to factor into the way that we use and generate electricity.

CHAIR: Do you see a dramatic growth in that industry of solar panels?

Mr WARREN: The growth is clearly coming. So we are clear, far and away Australia has the highest penetration of rooftop solar in the world. The next closest jurisdiction to Australian penetration rates of 14 per cent is Hawaii, which is 11. States such as Queensland and South Australia have 25 per cent and 23 per cent rooftop solar photovoltaic [PV]. Some suburbs have 50 per cent solar PV. This is now a normal part of the residential landscape in Australia that no-one else in the world has got close to yet. Yes, we think it will continue.

The Hon. Dr PETER PHELPS: Mr Warren, your organisation represents publicly owned and privately owned networks. Is that correct?

Mr WARREN: That is right.

The Hon. Dr PETER PHELPS: One of the issues which has been raised—I think spuriously, but I will await your expert judgement on—is the reliability issue. Is there any discernible difference between privately owned and publicly owned networks?

Mr DONOGHUE: No.

Mr WARREN: No. The reliability of networks across Australia that we experience is at an extremely high level and the differences in the numbers are so marginal as to be decimal points.

The Hon. Dr PETER PHELPS: The allegation that private networks are somehow more unreliable is completely wrong?

Mr WARREN: Yes.

Mr DONOGHUE: Yes.

Mr WARREN: If anything, they are slightly higher on the decimal point, but it is at the margin, so it is no difference.

The Hon. Dr PETER PHELPS: The Australian Energy Regulator put out a pamphlet in April this year, which stated the following, "The historic opex"—which I take to mean operating expenditure—"of Ausgrid, Endeavour Energy and Energex Ergon Energy and Essential Energy have lower efficiency scores ..." Is your understanding of the situation that these businesses are less efficient than their other competitors in Australia?

Mr WARREN: The benchmarking report by the AER found this as the most robust assessment in comparison, and bearing in mind it is very hard to compare every network with every other network, because they are all slightly different in their geography and the areas in which they operate—

The Hon. ADAM SEARLE: And they are not in fact in competition with each other.

Mr WARREN: And they are not in competition with each other. There are about 23 different ways the benchmarking report compares the businesses, but in every assessment the privately owned businesses were at the most efficient end of the spectrum in all of those assessments. Again, it is at the margin, and you need to be clear in drawing those comparisons, but it was clear from their work that there was a slightly higher efficiency from the privately owned networks.

The Hon. Dr PETER PHELPS: Is it also true that they sought external consultants who "corroborated our benchmarking findings, and indicated that there was scope for Queensland, NSW and ACT and service providers to achieve efficiency improvements"?

The Hon. ADAM SEARLE: Point of order: Dr Phelps is asking this witness to have a running commentary on the AER's process. I understand the AER are coming on Friday.

The Hon. Dr PETER PHELPS: I am asking if they agree with that assessment.

The Hon. ADAM SEARLE: That is not your question so far.

The Hon. Dr PETER PHELPS: Do you agree with that assessment?

Mr DONOGHUE: We agree with the broad conclusions. We are certainly aware of some of our members who have reflected dispute elements of the detail and the way the AER has turned that into opex allowances for those businesses because, effectively, that implies that efficiencies of up to 30 or 40 per cent can be achieved overnight, but I think that is separate from the broader conclusions of the benchmarking report. As my colleague said, certainly the AER's approach to benchmarking is easily the most robust and comprehensive comparison carried out to date.

The Hon. DAVID CLARKE: Mr Warren, your association represents private and publicly owned electric companies throughout Australia?

Mr WARREN: Yes.

The Hon. DAVID CLARKE: Roughly what percentage of Australia does that cover?

Mr DONOGHUE: Approximately 90 per cent.

Mr WARREN: There is one company that is not a member. The networks in South Australia are not members.

The Hon. DAVID CLARKE: Over 90 per cent?

Mr WARREN: Yes.

The Hon. DAVID CLARKE: And your association is totally behind the Government's reform package? Is that correct?

Mr WARREN: Yes.

The Hon. DAVID CLARKE: Were you here when the Premier was showing his PowerPoint presentation?

Mr WARREN: No, we were flying in from Melbourne.

The Hon. DAVID CLARKE: There has been controversy amongst some people about UBS amending its report. You are aware of that controversy among some people?

Mr WARREN: Yes.

Mr DONOGHUE: Yes.

The Hon. DAVID CLARKE: Do you believe that, had it not been amended, that report would not have been totally factual?

Mr DONOGHUE: I cannot comment directly on that. I have not had the pleasure of reading the report, so I am not in a position to comment on the content of it.

The Hon. DAVID CLARKE: You are aware of the two amendments, Mr Warren.

Mr WARREN: Yes.

The Hon. DAVID CLARKE: Do you have a comment on that?

Mr WARREN: Again, I have not seen the report in question, so I am not sure I can comment on something I have not seen.

The Hon. DAVID CLARKE: All right. Are you aware of the amendments that were made?

Mr WARREN: Yes.

The Hon. DAVID CLARKE: Were those amendments factual as far as you are aware?

Mr DONOGHUE: My understanding is that the amendments largely related to the impact on the budget.

The Hon. DAVID CLARKE: Yes.

Mr DONOGHUE: That general fiscal impact is not an area that we—I guess our perspective is very much from the impacts on the electricity industry, not on the budget.

The Hon. DAVID CLARKE: In the last election the unions carried out a campaign that alleged private networks would be charging higher prices. Do you recall that campaign by trade unions?

Mr DONOGHUE: Yes.

The Hon. DAVID CLARKE: What is your answer to that? Was that allegation or assertion true or not true?

Mr WARREN: That is not true.

Mr DONOGHUE: That is not true and totally misleading.

The Hon. DAVID CLARKE: Totally, 100 per cent not true?

Mr DONOGHUE: No.

Mr WARREN: There is a comparison done of network costs by—I am trying to source the comparator—but it is basically the South Australian and Victorian network.

Mr DONOGHUE: It is the Ernst and Young report.

Mr WARREN: The Ernst and Young report. The network charges decreased by 18 per cent.

Mr DONOGHUE: Yes. Over pretty much the same period, New South Wales network charges increased by 122 per cent.

The Hon. ADAM SEARLE: That relates to network charges only?

The Hon. DAVID CLARKE: It was a fabrication of the facts, was it not?

Mr WARREN: It is just not accurate.

The Hon. CATHERINE CUSACK: Mr Warren, I want to elucidate more the issue of competition that these businesses will face. Perhaps I can draw an analogy with country rail. It has been a public monopoly. No-one else could run a country train up to my part of the world. That business has collapsed because of the airlines.

Mr WARREN: Yes.

The Hon. CATHERINE CUSACK: In relation to electricity, can you perhaps elucidate the nature of that risk and, if I can put it this way, what is the risk of doing nothing for those businesses?

Mr WARREN: What we are seeing is the nature of technology shocks: We do not know the answers but we can imagine some of the possible scenarios. Conventional electricity systems have operated optimising enormous economies of scale. If you go to the Bayswater power station up in the Hunter Valley, the building that houses the turbines is about a kilometre long. The conventional DNA of this industry has been the bigger you can build the generation systems, the cheaper the electrons are and it is worth the investment in moving those electrons large distances. That maths is now changing. Whether it is solar technology or the arrival of storage at different levels, how that plays out is not clear but one of the scenarios is that you have the rise of micro-grids.

It may be that you can optimise and you will get the same cost of electricity running a smaller grid inside the network, in which case you may see for various reasons industrial parks or groups of households evolve into their own sort of arrangements where they generate some or all of their own electricity. With that model, you then have a network faced with what does it do? It may optimise its returns by choosing to sell parcels of its network, for example, to those customers and then they take control of their own operations. This is neither command and control from a central authority nor is it a stand-alone house by house. It evolves if and when those conditions evolve. It seems that those decisions should be taken on a commercial basis, ensuring that the deliver and supply of electricity is managed inside those networks. It makes sense for that competition to exist and be allowed to flourish.

The Hon. CATHERINE CUSACK: In effect, the competition is people in the near future having the capacity just to go off grid and opt out of the system.

Mr WARREN: I think off-grid is significantly overstated. It may be that there is likely to be some economies of scale that continue, but it might be a micro-grid of 1000 or 10,000 households; but it may also be that the networks—if they start installing the storage at scale, which is more likely than households installing storage at scale as the costs come down—then they are faced with suddenly having entered the generation market by default. It is no longer a regulated business as far as the buying and selling of electrons go. They will be arbitraging and getting electrons in at the cheapest part of the day or when the solar systems are running, for argument's sake, and despatching them to optimise return. Suddenly they are flipped into the competitive part of generation just because technology has taken them there. There are many different iterations of that kind of gradual blurring of the line between regulated businesses and merchant businesses.

The Hon. CATHERINE CUSACK: So they have to be a lot more nimble and flexible than what they have had to do in the past?

Mr WARREN: Yes, definitely.

The Hon. CATHERINE CUSACK: To use another analogy, if the Government had retained ownership of Telstra and faced the digital revolution, do you believe Telstra would be offering the services they are today if it was the Government's job to do that innovation?

Mr WARREN: No. I think we have seen the clear benefits of governments exiting ownership of major businesses—whether it is banks, airlines or telephony systems. It is a natural evolution. Governments provided electricity at the turn of the century because it was an essential service, it was available to the community, and it was a clear role for them. But the industry has moved on from that. We should allow that to move on when the industry and the technology is right.

CHAIR: Thank you very much for your attendance and the information you have supplied. We appreciate it.

Mr WARREN: Thank you very much.

Mr DONOGHUE: Thank you, Mr Chairman.

(The witnesses withdrew)

BRENDAN LYON, Chief Executive, Infrastructure Partnerships Australia, affirmed and examined:

JONATHAN KENNEDY, Head of Government Relations and Regulatory Affairs, Infrastructure Partnerships Australia, sworn and examined:

CHAIR: I welcome our witnesses from Infrastructure Partnerships Australia. Would either of you like to make a brief statement?

Mr LYON: Thank you, Mr Chairman. I would like to make a brief opening statement. In opening, I wish to thank the Committee chairman, Reverend the Hon. Fred Nile, and all the members of this Committee for your invitation to appear here today. The lease of the poles and wires is a fundamental issue for New South Wales. The deliberations and findings of this Committee will in part dictate where New South Wales is going as a State and as an economy and the opportunities that we each have as citizens of New South Wales.

New South Wales is at a crossroads. On the one hand we can partially lease our electricity grid and recycle the capital into new infrastructure. Through the lease, New South Wales receives a substantial return. This is $20 billion of real money that will be used to fund infrastructure like the Metro rail crossing of the harbour and a $6 billion investment across the regions. Through the lease, all the independent statistical evidence shows irrefutably that New South Wales consumers can expect electricity supply to cost less, not more. On the other hand, this Committee could resolve that New South Wales should maintain the status quo but we already know from 20 years of experience that our reward for maintaining the status quo will be more of the same—poor infrastructure and inefficient electricity transmission and distribution.

I urge each member of this Committee to approach this issue with independent intellect. I hope that you will each approach this issue free of the ideology that underpinned much of the political debate during the recent New South Wales election campaign. New South Wales cannot afford to maintain the pretence that somehow we can fix our infrastructure without first fixing the New South Wales budget. I hope that this Committee's findings will expose the wilful deceit in the unions' scare campaign on poles and wires; that you will recommend in favour of reform that is so clearly in the interests of every single person in this State; that you will use your report to call out the lies that prices will go up because of efficient private operation; and that your recommendations will show the nonsense of claims that New South Wales is forgoing $1.7 billion in dividends by divesting these assets.

Indeed, the final determination of the Australian Energy Regulator means that dividends will shrink to effectively nothing and that the rivers of gold claimed in the unions campaign will slow to a trickle by the last year of the budget estimates. Far from taking away revenue to pay for doctors and nurses, as the unions claimed, the networks will become a millstone on the budget, taking money away from front-line services and blocking our chance to fix this State's infrastructure.

Price is a word that you will hear a lot during your deliberations so it is important that the facts are clear. It is a fact that States which have privatised their electricity grids have seen network prices fall in real terms over the last 15 years. Over the same period, public operation in New South Wales has seen network costs surge by 122 per cent, as the Committee has just heard. This debate has seen literally every public regulator and independent economic authority line up to support the lease of the New South Wales poles and wires including the Australian Competition and Consumer Commission [ACCC], the Australian Energy Regulator, the Productivity Commission, the Council of Australian Governments Energy Reform Implementation Group [ERIG] review, the Australian Energy Market Commission, and even the International Energy Agency. Meanwhile, on the other side of the debate, we see only the public sector unions backed up by the same predictable trio of anti-reform academics for hire.

Dr JOHN KAYE: Oh, nice.

Mr LYON: It is also worth placing on record a quote from the Chairman of the ACCC, Rod Sims, who stated at a recent regulatory conference, "New South Wales electricity prices would now be significantly lower had the New South Wales electricity network assets been privatised." Even the nation's chief consumer advocate has put on record that prices would be significantly lower had New South Wales previously leased or sold the poles and wires. Price impacts aside, the lease of the grid also represents the one opportunity we have to break the back of the New South Wales infrastructure shortfall. This year traffic congestion will cost the New South Wales economy $6.2 billion in avoidable economic and social costs. An average Sydney driver will spend about

90 hours a year sitting in traffic—a full 90 hours a year that could otherwise be spent with family or in other pursuits. From a global perspective our road congestion is worse than London's and is at the same level as Los Angeles—a city that is four times the size of Sydney.

We are suffering similar congestion problems on the suburban rail network where crowding during the morning peak can now exceed 160 per cent of capacity and where train path congestions mean we cannot put more services or more trains onto the track. New South Wales infrastructure problems also extend well beyond transport and well beyond Sydney. Infrastructure NSW has identified an immediate underfunded infrastructure backlog of circa $35 billion across the State's roads, public transport, health, education and water infrastructure.

Given the clarity of requirements for new infrastructure and the clarity about the higher consumer prices from inefficient public operation, it is a very legitimate question to ponder why New South Wales has not done this reform before. Mr Chairman, as you are aware, given your long and distinguished service in this place, there have been multiple attempts to reform and privatise or lease the New South Wales State-owned electricity sector between 1995 and now. Labor Premier, Bob Carr, and his Treasurer, Michael Egan, tried to reform the entirety of the sector in the 1990s. Later Morris Iemma attempted to privatise both generation and retail assets. The reason that those governments and this contemporary Government are trying to privatise these assets is because it is in the State's interests to do so. In each previous case, these attempts were frustrated by self-interested unions and their wilfully dishonest fear campaigns against reform.

But this time around it is different. As the State election result showed the New South Wales community has moved on this issue. The community understands that leasing the grid is in the State's interest because it is our only real option to fix infrastructure right across the State and to end the over-comfortable working conditions and over-investment for the lucky few at the expense of the many. Mr Chairman, I hope this Committee finds on the evidence that this reform is in the best interests of everyone in this State and that the Legislative Council respects the strong mandate that has been given to reform the ownership of the poles and wires. I look forward to your questions.

The Hon. ADAM SEARLE: Mr Lyons, your organisation engaged in an advertising campaign during the election, did you not?

Mr LYON: That is correct.

The Hon. ADAM SEARLE: How much did your organisation spend on that campaign?

Mr LYON: I believe that we spent about $140,000 in total. That will be declared and disclosed, as is required, but I understand that the total is $140,000.

Mr KENNEDY: Yes, $140,000, which is about 27 per cent of the third party campaign cap.

The Hon. ADAM SEARLE: You are a registered third party campaigner?

Mr LYON: We are a registered third party campaigner.

The Hon. ADAM SEARLE: Did the money for the campaign come from existing funds that your organisation retained?

Mr LYON: Yes.

The Hon. ADAM SEARLE: There were no special contributions made by individual members?

Mr LYON: No, because of the advising-time nature of the electoral disclosures Act and because of the sort of position that we have as an independent think-tank we thought it was much better just to fund it out of retained equity than it was to try to raise money or anything else.

The Hon. ADAM SEARLE: Who in the Government—Premier, Ministers, staff—have you met with to discuss the electricity privatisation proposal?

Mr LYON: I have pretty much met with everybody I possibly can on both sides of the major parties about electricity reform. As you know yourself, it has been a long-standing issue for Infrastructure Partnerships

Australia. To be specific I have not met with the Premier, I do not believe, about electricity. I have met with him about other aspects of infrastructure but not electricity reform. I certainly have met with the Treasurer about it.

The Hon. ADAM SEARLE: Is that the former Treasurer or the current Treasurer.

Mr LYON: Sorry, the Treasurer at the time Mr Constance. I have not met with the new Treasurer about it post-election or anybody else within the Government.

The Hon. ADAM SEARLE: In those meetings or discussions were any of your constituent members present?

Mr LYON: No.

The Hon. ADAM SEARLE: So you did not take any members of your organisation along?

Mr LYON: No. Like the previous association, Infrastructure Partnerships Australia is independent. We focus on things like the regulation of infrastructure markets. We are not a lobby group for individual members. So no member would ordinarily accompany us to any meeting with political or bureaucratic stakeholders.

The Hon. ADAM SEARLE: In your opening statement you talked about fixing the New South Wales budget and that this privatisation proposal was directed to that aim. At the moment the proceeds that the Government receives from these electricity companies are not hypothecated to infrastructure, are they, they just go into general revenue?

Mr LYON: No.

The Hon. ADAM SEARLE: But the proceeds of the sale of the lease are to be hypothecated. Do you understand that to be the case?

Mr LYON: Yes.

The Hon. ADAM SEARLE: From the point of sale or the point of lease the State Government will lose the dividends, at least some of the tax equivalent payments—

Mr LYON: Some of the dividends some of the tax equivalent payments, yes.

The Hon. ADAM SEARLE: But you accept therefore that there will be a negative hit on the annual State Government budget as a result of this transaction?

Mr LYON: There will be a negative hit on the State budget if you assume away the order of investment into economic infrastructure, the fiscal return that it goes through it and the growth of the economy. In answer to the last question to the last speaker I think that is where the initial UBS report would have been stronger if it looked at the reinvestment opportunity. Nonetheless it would be fair to say that the State will have a smaller portion of a very small pool of proceeds. Our initial look at the state of dividends, we cannot see the networks under current ownership arrangements with the current regulatory determination continuing to return to the budget. We believe that it will become a net recipient.

The Hon. ADAM SEARLE: That is not a proposition that has ever been raised so far.

Mr LYON: It was just raised then.

The Hon. ADAM SEARLE: I know by you, but you are the first person to raise that issue.

The Hon. CATHERINE CUSACK: Are you saying a loss making?

The Hon. ADAM SEARLE: Catherine you will get to questions.

Mr LYON: I would like to see—this is only some work we have been having a look at in the office but even on the publicly available figures—and I understand the statement from the Premier this morning—the pool of revenue drops.

Mr KENNEDY: If you look at the half yearly review the current forecast for 17-18 is $407 million and that is the tax equivalents payments [TEP] and the dividends, aggregated across the network. Importantly the half yearly review is quite clear on this. It says that only the change to the weighted average cost of capital [WACC] has been factored in to that $407 million. I think if you look at the AER determination that came out last week, which cuts operating expenditure, for instance, by 33 per cent in the case of AusGrid, if you factor that in I think you would probably shave off quite a bit of the $407 million. So that $407 million in the budget does not account for the full impact of the AER determination.

Mr LYON: What I would say following that up is that the proposition that the State will continue to make $1.7 billion is not something that I would build a budget on if I were the Treasurer. Moreover, that $1.7 billion is exactly the reason why we have seen such a huge escalation in retail electricity prices that has, as everyone in the room would agree, negative impacts on both consumers and the productivity of the manufacturing sector, the broader economy.

The Hon. ADAM SEARLE: Nevertheless you know that historically the budget forecasts from the proceeds from these companies have under-estimated the amount that has been received? You also understand that the Treasurer of the day can pretty much, so far, have been able to determine what the level of shareholder dividends have been?

Mr LYON: One of the welcome changes over time has been the move to national price regulation, the ability to have both benchmark competition and transparency across different providers within the national electricity market in those monopoly aspects. I think the days of governments being able to write their budget by dialling up or dialling down what they charge through utilities has probably gone. I think that we clearly need a more efficient electricity sector. We clearly need capacity to be able to invest in new infrastructure. It is pretty clear on the statistical evidence that the existing arrangements have not worked. We have a fairly lengthy case study now of more than 20 years of comparative performance. I think not only has the horse bolted on the proposition that public ownership protects consumers, but also that horse has sort of gone over the ranges and died a happy old age. We have seen it for 20 years in Victoria in terms of lower prices, and in South Australia the same. Meanwhile the two publicly operated network States have seen 122 and 140 per cent increases in their network charges.

The Hon. ADAM SEARLE: You are talking about a situation where you think these ventures may become loss making—

Mr LYON: Only under a public operation.

The Hon. ADAM SEARLE: Whether it is public or private, they will still be subject to the same regulatory regime by the AER.

Mr LYON: Exactly the same regulatory regime.

The Hon. ADAM SEARLE: If your proposition is correct, nobody would want to buy these if they are going to crash and burn in the way you have described. Both of those scenarios cannot possibly be correct.

Mr LYON: I am only describing how they might perform under public operation. I think that one of the benefits that you get from private operation is that you get an increased level of focus and flexibility in terms of the deployment of resources, allocation of costs and so forth.

The Hon. ADAM SEARLE: Just on that, the AER will set the revenue envelope for each of these businesses. They cannot charge more than that.

Mr LYON: Yes and that really shows the lie of "your prices will go up" aspects.

The Hon. ADAM SEARLE: This only regulates network prices; it does not affect retail prices. Does it?

Mr LYON: No, it does not affect retail prices.

The Hon. ADAM SEARLE: And retail prices in this State have now been deregulated?

Mr LYON: Yes.

The Hon. ADAM SEARLE: So it is a matter for all of the retailers as to what they charge?

Mr LYON: It is a matter for retailers.

The Hon. ADAM SEARLE: So they can pass on savings or not?

Mr LYON: In fact, it is a matter for the customer really.

The Hon. Dr PETER PHELPS: What has this got to do with the leasing of poles and wires except for the fact that we now have a national electricity market which means competition comes into effect?

The Hon. ADAM SEARLE: Point of order: Government members will get their opportunity to ask questions, Mr Chair. Can they please not butt in?

The Hon. PETER PRIMROSE: Who does the Infrastructure Partnerships Australia represent?

Mr LYON: We represent pretty much everybody who operates within the infrastructure space, public and private, a little bit like the Energy Supply Association we have a mix of public and private entities. On the public sector side it tends to be central agencies, procuring agencies, operating out of Government, assets like Ports where they remain publicly owned. On the private sector side quite predictably it is investment banks, large superannuation funds, large construction firms and a range of advisory functions that surround it. We were established in effect to be an independent not-for-profit think-tank about the efficiency of infrastructure markets, electricity markets, markets for mobility and through into social service delivery as well.

The Hon. PETER PRIMROSE: Do those private companies pay to be members of the Infrastructure Partnerships Australia?

Mr LYON: They do.

The Hon. PETER PRIMROSE: It is by subscription?

Mr LYON: Yes.

The Hon. PETER PRIMROSE: Is your parent company Advocacy Services Australia?

Mr LYON: Yes. "Parent company" is probably the wrong term.

The Hon. PETER PRIMROSE: Can you tell me what it is?

Mr LYON: It was established as a joint services platform. It is shared between us and a tourism industry group. It was designed to allow us to share common costs across back of house. So, in effect, HR, payroll, those management structures and so on.

The Hon. PETER PRIMROSE: Do you share the views overall objectives of that organisation that I called your parent company?

Mr LYON: Possibly not. One of the things the Committee would not be aware of is that we have recently separated. This happened during the past 12 months. It has been an ongoing process of demerger. I am not surprised that nobody is aware of it because it is the smallest demerger and acquisition activity in the Australian market. TheTourism and Transport Forum is a not-for-profit group for tourism operators and providers. We found that having a centralised system of delivering joint services was not particularly responsive to either so in the past few weeks we have established Infrastructure Partnerships Australia Limited. They have established Tourism and Transport Forum Limited and we are separating.

The Hon. PETER PRIMROSE: My condolences.

Mr LYON: It is the happiest divorce you have ever seen.

Dr JOHN KAYE: I am glad the divorce is happy. Mr Lyon you have mentioned three times that you were an independent think-tank.

Mr LYON: Yes.

Dr JOHN KAYE: As in independent think-tank you and what was then your back-office Advocacy Services Australia gave $122,000 to the New South Wales Liberal Party?

Mr LYON: Over what time period are you referring?

Dr JOHN KAYE: Over the past decade?

Mr LYON: Are you talking about political donations?

Dr JOHN KAYE: Donations to the New South Wales Liberal Party partly through the Millennium Forum?

Mr LYON: Yes.

Mr KENNEDY: We do not have the full backlog of donations but I can tell you that this financial year we have given $1,877 to the Liberal Party.

Dr JOHN KAYE: It has been a hard year for you. How does that make you an independent think-tank if you are donating money to a political party?

Mr LYON: We make donations to both political parties.

Dr JOHN KAYE: Are there only two political parties?

The Hon. Dr PETER PHELPS: Only two political parties worth speaking of.

The Hon. ADAM SEARLE: Do you tell your colleagues in The Nationals that?

Mr LYON: I should say "to the two major parties" and I do not mean you any offence in that regard. Because of the way that the electoral system is structured, I note you have got democracy for sale as a way of bringing transparency to the process. But we make donations across both of the major parties right across the federation. If you looked over a 10 year period I think it is 48:52, Labor to Liberals. Over time it is balanced. Any suggestion that we somehow improperly buy influence or anything else would be rejected quite strongly.

Dr JOHN KAYE: Was that inference made?

Mr LYON: No, I am saying if.

Dr JOHN KAYE: But you are a think-tank but you are a think-tank that gives political donations?

Mr LYON: We attend political events, yes.

Dr JOHN KAYE: Do you find inconsistency between being a think-tank, a generator of ideas, an intellectual leader on the one hand, and other the hand an organisation that gives donations to political parties?

Mr LYON: We take quite a strong view that under the current system, I think one of the best reforms the country could make would be to make fully funded public election campaigns because it would save everybody a lot of time. Nonetheless, that is part of the rules of the system that operate. We are a public policy think-tank. We seek to engage with policy makers as we do with others and we seek to do so to build a community of understanding around things like road user charging reform and efficient electricity markets.

Dr JOHN KAYE: Do those donations give your reports more credibility, power and influence?

Mr LYON: I would say that they are rather separate to the research program. What they do is give us proximity to talk about the findings that come from them.

Dr JOHN KAYE: They buy you access?

Mr LYON: They do not buy us access.

Dr JOHN KAYE: What is in the terms "proximity" and "access"?

Mr LYON: It is part of the system that is regulated by the Parliament of New South Wales which sees all major parties, including I presume The Greens, seek donations through party-political functions.

Dr JOHN KAYE: Are you a former staffer of Bruce Baird?

Mr LYON: I was.

Dr JOHN KAYE: One of your patrons is Nick Greiner, a former Premier of New South Wales?

Mr LYON: Also true.

Dr JOHN KAYE: You have strong connections with the Liberal Party, to put it mildly?

Mr LYON: I have equally strong connections in the Labor Party. I know the Labor Party very well. I employ a number of former Labor staff who work in senior positions in my office. If what you are trying to infer, if I may Dr Kaye—

Dr JOHN KAYE: No, it is not up to you to say that, with all due respect.

Mr LYON: Sure.

Dr JOHN KAYE: What I am trying to infer is what I infer. I am just asking you questions. You have significant connections with the Liberals. You discussed this with the Liberal Party? You discussed the evidence you gave today is based on work which you have done which has been discussed with the Liberal Party on a regular basis?

The Hon. CATHERINE CUSACK: Point of order: The witness is entitled to answer the question however he sees fit. Dr Kaye is pursuing a very personal line of questioning, not related to the policy issues. I ask that when a witness seeks to answer a question that he is given space to answer the question as he sees fit, rather than have Dr Kaye seek to direct him as to how he should answer that question?

CHAIR: Yes, he has been answering the questions.

Mr LYON: Sorry, Dr Kaye, I did not understand the question. Can you say it again?

Dr JOHN KAYE: Let us go somewhere else for a minute. You implied—and I think this is one of the few things you and I will ever agree on—that there is a scenario in which the New South Wales wires and poles industries end up not making much in the way of money, or none at all in fact. What does that mean for the purchase price?

Mr LYON: We think that the State has possibly been a little bit pessimistic in its assumptions around the sale price for these assets. If you have a look at related transactions and relatable transactions there is a multiple of about 1.3 times of the regulated asset base. While saying that, under public operation you are going to see a significant deterioration in the profitability because of the lack of response and flexibility that you see under private management. The price is going to be the price is going to be the price, and we will know that when it is put to the market. But if you look at related recent transaction and trading multiples, you are looking at 1.3 as the average.

Dr JOHN KAYE: I think you were in the audience and you heard the previous witness, who I think would in many ways share a world view with you, but he was saying how the industry is going to go through major changes. You probably know that the Premier this morning said that by 2017-18 the entire networks will be paying $109 million in dividends, down from 10 times that amount in 2012-13.

Mr LYON: Very good news for consumers.

Dr JOHN KAYE: Maybe, maybe not—it might be in the short term, probably not in the long term. But the issue I wish to address here, which is the sale price, you are saying that $109 million is all a result of the public sector ownership and in the private sector ownership there would be far more dividends to be paid back for the $13 billion or, in your case, probably $15 billion or $16 billion that people are going to pay for the network.

Mr LYON: As you know, the price is regulated. The whole basis—and I think you studied economics—

Dr JOHN KAYE: No, that is incorrect. But go on.

Mr LYON: The whole basis of incentive-based regulation is about making people respond—

Dr JOHN KAYE: I am sorry, Mr Chair, I am having difficulty hearing the witness because of the constant backchat from two members of the Government. Could the witness be heard in silence?

CHAIR: Yes. Members will cease discussing any matters during questions.

Mr LYON: The whole basis of incentive-based regulation is that you will see people respond and they will respond through maintaining the required level of service and making efficiencies in the operation and delivery of those. We have seen it work in every other jurisdiction that has done it in Australia; it will work in New South Wales.

Dr JOHN KAYE: So you think there is $500 million, say, of efficiency gains that can be made? If the public ownership return is $109 million, you think it could go up to, what, $400 million, $500 million? I do not want to pin you to a figure but it could grow dramatically from that $109 million?

Mr LYON: The experience globally and in Australia is that where you have incentive-based regulation over monopoly assets you drive productivity increases, you bring down costs and you maintain or increase the level of service. I am not going to be pinned to a figure because I have not done work around this.

CHAIR: Your time is up, Dr Kaye.

Dr JOHN KAYE: Could I just ask one more question because it relates to you, Chair? The Chair of this Committee has said that he favours a five-year employment protection. If there was a five-year employment protection, that $109 million would stay at $109 million, would it not, if the gains were all in reducing the workforce size?

Mr LYON: In recommending various aspects and mitigations around the sale process, it is really up to the Committee's deliberations, but the less flexibility that you leave at the end of the process the more you are going to impact the sale price. The other thing is that this Parliament, this Committee, should be focused on the 8.1 million people who live in New South Wales and not necessarily only on the people who are affected through the potential lease. None the less, I understand that there are a range of drivers that sit over what you do. But this is really about how do we make the electricity sector as productive and low-cost as we can?

How can we end the damage on vulnerable households? How can we stop the signal for manufacturing and other industries to leave? Let’s face it, electricity prices are a key input into the economy alongside labour and transport. I can only see upsides in terms of the creation of jobs in New South Wales, of sustainable jobs, if this investment is directed towards the sorts of infrastructure that grow the economy, that bring down congestion, that allow trade and commerce to occur unhindered by congestion, unhindered by higher than necessary electricity costs. So I can only see this reform through the context of being in the fulsome good of this State.

CHAIR: Just a general question: I know the infrastructure proposals have a wide range of matters, I was just trying to get clear in my mind were you given the $20 million to work out how to spend it or did you work out what should be done in infrastructure in New South Wales and the Government is trying to work out then how to fund it? Which came first?

The Hon. ADAM SEARLE: I think that is Infrastructure NSW, Mr Chair.

Mr LYON: Yes, that would be Infrastructure NSW, who I think are following us in evidence. They are a State Government agency. They are the ones who went through the cost benefits and all of the rest on the project proposals. They are coming after lunch, Mr Chairman.

CHAIR: One of the other aspects of the Government's proposal is to have a Price Commissioner, Professor Fels. Would that have any negative impact on private companies bidding for the leasing of the poles and wires?

Mr LYON: I have not seen a great deal of detail on what the Price Commissioner will do. I think that was really more of an outcome of the discussion and a reaction to the community's fears around "your prices will go up if we privatise these assets"—the campaign that was put forward by the unions with great vigour. People are already protected in terms of what can be charged by the network companies because they are regulated by the Australian Energy Regulator—it is a national regulator attached to the Australian Competition and Consumer Commission. None the less, I accept that various sections of the community have expressed concerns about price, so the Government has responded by bringing in a respected former head of the ACCC—well respected in terms of his consumer advocacy and protection over time.

I assume—I have not read the details of what the Price Commissioner's powers will be—but I also noted some commentary this morning in the paper around having licence conditions that the Government is talking about on each of the bidders as well. I have not seen the detail on those but I assume that it is about providing greater transparency and reassurance to the public. What is fact is that the prices that are charged by the network companies are not determined by the network companies; they are determined by the Australian Energy Regulator. So that means that people can have full assurance that prices will not go up because of decisions from the private owners of these assets; prices will be set by the national regulator based on the methodology that they employ. Moreover, the State gets the benefit of releasing that existing taxpayers' money so we can begin to fill some of the really terrible gaps in the infrastructure services out to greater Western Sydney.

I think of particular interest is the $6 billion fund for regional infrastructure, which does give us a once-in-a-lifetime opportunity to fix things like timber bridges on freight routes, and other things, so that we can start to make the economy in this State grow faster than it has been.

CHAIR: Mr Borsak, do you have any questions?

The Hon. ROBERT BORSAK: No.

CHAIR: Government members?

The Hon. SCOTT FARLOW: Mr Lyon, just picking up on that point about the infrastructure backlog and the challenges we face. We have heard from other members today about how the Government could potentially handle that infrastructure backlog through debt financing. Could you outline why you feel that would not be the right path forward?

Mr LYON: I think public sector debt is a tremendous way to pay for infrastructure; it is a way to spread the burden across generations. The problem that New South Wales and most other, in fact, all other State jurisdictions have, is that we have already used the capacity that we have, and both of the major parties have an economic and fiscal commitment to retaining the triple-A. That means that there is insubstantial additional capacity for borrowing and it means that we do not have the flexibility to pay for the infrastructure that is wanted without either running very substantial surpluses for a very sustained period of time to bring down the existing borrowings or, in the case of an asset lease, you get a return from those assets and you are able to bring down the level of gearing on the budget. So it creates that flexibility to be able to build in really city and State-changing projects like easing the congestion in the cross-harbour rail crossing, fixing the gaps in Sydney's road networks and, as I mentioned a moment ago, the less visible but very high-benefit cost investments across the regional freight networks in particular.

I do not disagree with suggestions that debt is a good way to pay for infrastructure; I agree with them. The problem is we have already used that right up to the limit of the credit card. As you have seen with Queensland, two rating downgrades in a row; similar with South Australia, the same with Western Australia. One of the challenges that all of Australia's State governments face is that there is an infrastructure and service funding requirement that is asymmetrical to the revenue and budget capacity to pay for it. So that is where things like asset leasing of electricity networks gives you breathing room, it gives you additional capacity so you can accelerate the infrastructure program, but we have a much harder challenge as you look ahead, and that is really about how do you increase the value and bring down the cost of your broader service delivery operating expenditure across general government.

That is really at the heart of the challenge that is facing every government around Australia, national and State, and, again, why asset leases, asset privatisations, give you that opportunity to recapitalise the budget and to bring forward some of the really large projects that in some cases have been talked about for 50 or 60 years but only come within our grasp once we have created the capacity on budget to be able to afford it.

The Hon. SCOTT FARLOW: There was some excitement from members opposite earlier about $140,000. Was that correct in terms of what you spent on the election campaign?

Mr LYON: Yes.

The Hon. SCOTT FARLOW: How do you think that would compare to the unions' advertising spend in New South Wales?

Mr LYON: We actually had a look at this. We made an estimate about this.

Mr KENNEDY: If media reports are to be believed and the unions spent in excess of $10 million on their campaign, we spent about 1.4 per cent of that amount. So we spent 27 per cent of the allowable cap as an industry group—1.4 per cent of what the unions spent, according to the media reports.

The Hon. SCOTT FARLOW: Were there any other organisations that would have been listed as third party campaigns that would have been spending anywhere near the unions' amount during that campaign?

Mr LYON: None that we are aware of. I think there were a number of business groups that registered as third party campaigners. I think all of them, because each of them adopted a similar process to us of not raising money but funding it from returned earnings, were equally modest.

The Hon. SCOTT FARLOW: During the campaign I noted an article that you wrote, published in the *Daily Telegraph*, where you went through some of the examples of 26 per cent superannuation paid to some employees within public electricity companies. Are there any similar conditions that exist in private sector networks in other States?

Mr LYON: Certainly not as far as I am aware. The *Daily Telegraph* uncovered quite a range of these kinds of aspects.

The Hon. SCOTT FARLOW: An excellent media organisation.

Mr LYON: I guess the point with it is that the incentives that sit on a publicly operated monopoly network, and particularly before the rule changes where there was a cross-incentive of the more that was spent the greater the return to the State, I think that provided a mixed signal around managing the cost to the consumer. I think ultimately it is why we have seen, and certainly IPART identified it, that the largest component of the bill increase for households, $580 a year, has been driven by that slack management of operating expenses through things like over-generous working conditions, over-generous superannuation schemes. The problem with all of that is that goes onto the household bill of every family, of every business, because of the way that network charges are calculated; it has allowed OPEX, CAPEX plus weighted average cost of capital to be then charged out to the consumer.

I think if the Committee wants to make a useful recommendation around transparency of performance, identifying on the household bill the components that are from generation, from retail, from transmission and distribution would both inform the public and surprise them to some degree, particularly if it back cast in terms of the data. There is a strong view that it is the coal merchant power stations or the retailers that are charging the large escalations. In fact, it has been the overbuild in the infrastructure and the under-management of the operating expenditure that IPART and everybody else have identified as the major driver of cost.

Mr KENNEDY: On that point I will add that the Productivity Commission did a study in 2013. I highly recommend the Committee looks at that. The Productivity Commission found that publicly operated network businesses were about half as efficient on their operating expenditure as private companies.

Mr LYON: Or, put a different way, the private companies were twice as efficient.

Mr KENNEDY: They spend twice as much on a per customer basis on their operating costs. To go to your question, I think it is unlikely that we would see things like 27 per cent super and two minutes of overtime per kilometre travelled on late shifts, et cetera, under private operation

The Hon. DAVID CLARKE: Mr Lyon, your organisation is probably the peak industry body in Australia with expertise on infrastructure policy. Would that be correct?

Mr LYON: We would certainly like to think so.

The Hon. DAVID CLARKE: In your position representing Infrastructure Australia and all of that expertise, you are saying that there is no other responsible, serious way for New South Wales to fund those required infrastructure projects other than proceeding with this electricity lease?

Mr LYON: That is 100 per cent what I am saying to the Committee. There is a lack of alternative options other than making a decision to drop the triple-A credit rating. We cannot fund the level of investment that is needed without the recapitalisation of the budget. If you take a case study of three States, you have a Labor Government in Victoria privatising the Port of Melbourne and a Liberal-Nationals Government in New South Wales proposing to privatise its electricity sector. Both of those States have a very large forward program of transport, health and other projects that they are funding off the proceeds.

In Queensland you have a Labor Government that was elected on a platform of not privatising or leasing that State's electricity grid. As a result you have seen a cancellation of the entire greenfield forward program. What that reflects is the simple fact that the States are overweight in debt and they have a negative fiscal balance. In the absence of the reset from the sale of public assets in the short term and a longer period of rebalancing revenue and expenditure then we are not going to see the levels of investment that are needed or wanted even to fix current-day problems.

The Hon. DAVID CLARKE: You have looked at all the alternatives and the truth is there is no viable alternative?

Mr LYON: I am very old-fashioned in my views about the approach to public finances. I think it is always better to pay for infrastructure with real money than it is with magic and accounting tricks. In the 1980s and the 1990s in some ways we saw private finance and other things used to try to hide the funding of infrastructure from the accountants in effect. Europe has been through something similar. I think the European accounting standard 95 is the standard they were relying on.

The best way to pay for infrastructure is to have money available to fund it. There are only two places that can come from; either from the Government through its existing equity or through its tax revenue, or through users through things such as tolls, utility bills and other things. I think the role for parliaments and governments is to look at how you can make those markets as efficient as you possibly can so you can bring down the costs for vulnerable households, for businesses and for everybody else. Governments should be using their budgets to fund things like public road infrastructure, public transport and other things.

I cannot see any way that New South Wales can fund the level of investment that is needed in the absence of a substantial reset to its current debt load and an equally substantial period of very complex reforms to the way that public services are delivered, the way that the Federal-State financial arrangements operate and so on. Every infrastructure problem Australia faces is solvable but they are complex solutions and they are ones that deserve more than a-couple-of-word slogans against them.

The Hon. ADAM SEARLE: You are aware that the existing industrial arrangements of the workers in the industry were agreed to by existing management?

Mr LYON: I understand they exist. I am not an expert in them.

The Hon. ADAM SEARLE: You understand that before management could sign off on them they had to be signed off on by the Government. You understand that, do you not?

Mr LYON: Again, I am not an expert in industrial relations but I will accept that that is the case.

The Hon. ADAM SEARLE: In relation to the superannuation figure Mr Farlow asked you about, you are aware that is made up of salary sacrifice by individual workers, wage trade-offs in previous wage rounds as well as the super guarantee amounts—they are not all funded by the employer. You understand that?

Mr LYON: They are funded not by the employer; the employer is funded through the utility bills of households across New South Wales. It is ultimately us as consumers that fund everything to do with those businesses.

The Hon. ADAM SEARLE: A significant proportion of that figure is funded by the workers themselves. You understand that. It is not just all out of the public purse.

Mr LYON: As I said, I am not an expert in industrial relations.

The Hon. ADAM SEARLE: So you just do not know?

Mr LYON: What I do know is that the private operation of these networks has been twice as efficient as the public operation of the networks. There is a long case study into it that is statistical and put forward not by crazy organisations but by the Productivity Commission, the Australian Competition and Consumer Commission [ACCC] and so on. Clearly there is a problem in managing both the cost of the build and the cost of the operation under public ownership. That is not a reflection on anything to do with the people who work within those businesses or manage those businesses. There is a very long body of evidence to suggest that the incentives that sit on private managers are very different to the incentives that sit on public managers.

The public interest is clearly about getting the price of electricity down and it is very clear that the way to get that down is to transfer the operation and ownership of these assets across to private managers as has happened in other States. I am not going to get caught up on the individual aspects of enterprise bargaining agreements because I do not have that knowledge. What I do have is a very clear set of statistics—as the Committee does before it—that the out-turn price performance for network costs will be materially better when you have private operators subject to incentive-based price regulation.

The Hon. ADAM SEARLE: One of the things this Committee has to come to grips with is not whether privatisation is a good idea per se but whether this particular proposal by the Government stacks up. I think you accepted that there was a negative impact on the State budget from this transaction. You do not have any specific modelling that shows that by financing this infrastructure build from the proceeds the Government can recoup that money at all or in a reasonable period of time?

Mr KENNEDY: There are two sets of modelling out there on this. I will just go back to an earlier point though in terms of the triple-A. We talked of the cost of the loss of the triple-A, which has been estimated by Treasury as $3.75 billion over 10 years. Being conservative, that is $300 million a year. If we take the Premier's comments this morning on the forward dividend streams, it is almost three times the dividend streams. So there is a fiscal case there in those terms. If we look at the broader economic uplift from the lease, it is two-fold.

The Hon. ADAM SEARLE: I am looking at the impact on the State Government, not the economy generally. If the State Government sells the asset and then spends that money building certain infrastructure the question is will the State Government recoup the money through the investment—not the economy, the State Government?

Mr KENNEDY: To answer the fiscal I have to step through the economics. There is a paper by Deloitte Access Economics, I am sure you are aware, that forecasts a $300 billion boost to the State's gross State product [GSP].

The Hon. ADAM SEARLE: Yes, but not to the State Government budget.

Mr KENNEDY: But if you let me finish, from $300 billion to State GSP as a rule of thumb 25 cents in the dollar flows back to government in fiscal return.

The Hon. ADAM SEARLE: To the State Government?

Mr KENNEDY: To government, rather, of which a proportion falls back to the State.

Dr JOHN KAYE: Governments, plural.

Mr LYON: Yes.

Mr KENNEDY: A higher proportion goes to the Commonwealth. I think it is safe to assume that with a $300 billion uplift to gross domestic product [GDP] the fiscal return to the State Government, albeit a proportion of the total return to governments, would still be considerable.

Mr LYON: I think perhaps UBS might be geared up and ready to talk more about this issue this afternoon. What I would say is that the State's fiscal interests are declining on current settings no matter what you do. If you do not get infrastructure in place you are not going to grow the economy and if you do not grow the economy you are not going to grow the fiscal return that goes with it. There is a discussion to be had about who collects the benefit.

Our estimates show about 80 per cent of the tax revenue that is created by economic infrastructure flows to the Commonwealth, about 15 per cent flows to the State and about 5 per cent flows to local government, yet there is a larger requirement on the State to provide and fund infrastructure. So I think there is a good discussion to be had in the context of the Commonwealth-State review that is underway. Nonetheless, New South Wales needs the money. It needs the money for infrastructure projects that will grow the State's economy and that are in the best interests of everybody, including everybody in this room. Our considered view over a long period of time is that the reform and lease of the New South Wales electricity networks is the only shot in the locker for the New South Wales Government if we are going to stop talking about infrastructure and start delivering.

The Hon. ADAM SEARLE: During the Premier's presentation we heard about the price commissioner and that role. This morning in the media we hear that the energy Minister is to have new powers to step in and take over.

Mr LYON: These are through the licences, are they?

The Hon. ADAM SEARLE: Yes.

Dr JOHN KAYE: And the lease.

The Hon. ADAM SEARLE: We also heard about a scoping study, which we have not seen. There is no detail around any of these proposals. Surely you would agree that this Committee needs to know exactly what is being proposed in these areas before we can make an evaluation about whether, in the aggregate, this proposal stacks up for the community?

Mr LYON: I get asked this question a lot. People usually expect me to jump in and say that you should always protect the information and keep it quiet. They are always disappointed in the answer, which is that I think there should be full transparency of everything. What I would say is that these are going to be very large and very well competed transactions, so there are going to be aspects of this that are strictly commercial-in-confidence until the transactions have been complete. I would say that the Government, its advisers and this Committee will need to have a non-partisan and real discussion about what should be disclosed and what will disadvantage the State's interests. You have worked in commercial roles, so you understand these issues very well. These are going to be very large, very well competed transactions. There is going to need to be a very high degree of probity around access to data rooms, access to information and so on.

I would think that the Committee needs as much information as it needs to make recommendations but that should not come at the cost of the public interest in terms of the commercial-in-confidence aspects as we move towards a competed tender for these assets. We need to maximise the sale value of these assets because we need the money to build railways, roads and hospitals. It is a once-in-a-generation opportunity to capture and so I would be very unhappy to see the State sabotage itself in that way. But, again, I say the default position should be full transparency.

Dr JOHN KAYE: Mr Lyon, you said there was no other way to raise funds; the only way you can get the $13 billion is by selling the asset. Somebody asked before whether you looked at all of the alternatives. You did not actually answer whether you had or had not, probably because you cannot say that you have looked at the alternatives because there may be some you do not know about. For example, did you look at the alternative of raising a tax on poker machines to service a loan? Did you look at the example of land tax on speculators? Did you look at any of those kinds of examples?

Mr LYON: As I said in one of my answers earlier in the hearing, there are really two sources to pay for infrastructure: one is government through tax or retained equity, in this case the poles and wires, and the other is from user charges. I do not believe inherently that we should be looking at raising revenue until we have dealt with expenditure problems. I think that is a bad discipline for the public sector and bad disciplines for governments. We look at a range of options.

Dr JOHN KAYE: How is this an expenditure problem? We are talking about selling an asset. That is not an expenditure issue.

Mr LYON: I am taking about the broader opportunity to fund, which I believe was your question?

Dr JOHN KAYE: Yes.

Mr LYON: If you are going to fund infrastructure within the constraint of a triple-A you either need to have increasing revenue or you need to decrease expenditure so you have got the retained money that there is.

Dr JOHN KAYE: Or sell an asset.

Mr LYON: Or sell an asset. I do not believe that we should be looking at increasing taxes as a first step, particularly in respect of something like the ownership of these assets which are clearly better held by owners who are not public sector. As I said earlier on, the horse has bolted on this and died at a happy old age in other States. It is really about New South Wales recognising that gravity exists and that we need real money to pay for things, not magic. I do not hear people out in the streets clamouring for tax increases. What I do hear people talking about a lot is the need to fix congestion, journey to work times, regional infrastructure, hospitals and other things.

Dr JOHN KAYE: The answer to my question is no, you did not look at those alternatives?

Mr LYON: The answer is yes, we look at a whole range of options to fund infrastructure. We believe that governments should be trying to maintain fiscal balance, but we also believe inherently in efficient electricity markets. This is clearly a step towards the sorts of efficiencies that other States have been enjoying for some time.

Mr KENNEDY: We did not look into options in a fiscal sense, but we certainly took the pulse of the community on what they preferred. We did a ReachTEL poll in February this year.

Dr JOHN KAYE: What a reliable instrument that is.

Mr KENNEDY: It was. It showed that twice as many people supported asset recycling over tax increases or cuts to public services. I think the community has spoken on which option it prefers.

Mr LYON: The other point is that, as members are aware, there is a dead-weight loss of increasing taxes. At the moment Australia is facing a difficult transition from a period of very substantial economic growth. I think we have had 24 years of unbroken growth. We are facing transition and we are in competition with other places around the world for skills, capital and other things. I believe that we should hasten slowly in relation to tax measures and they should be implemented as efficiently as possible. As a country, we are trying to get back on the competitiveness agenda. That means bringing down the cost of infrastructure services, increasing the flexibility of the economy and ensuring that we have jobs available as the mining boom ends and we move to the next period in our economic history.

The Hon. Dr PETER PHELPS: One party suggested that $20 billion could be raised by increasing taxes. What do you think the business community response and the business investment mood reaction would be to a $20 billion increase in taxes?

Dr JOHN KAYE: Which businesses?

The Hon. Dr PETER PHELPS: Private sector businesses.

Dr JOHN KAYE: All of them?

Mr LYON: As I said, the dead-weight loss impact is acknowledged by tax policy experts and everybody else. A relative disincentive comes with changes to the tax system. A national tax white paper process is underway at the moment. Any consideration of taxation reform should be taken very carefully with a very fair and real-world view that the incorrect steps in terms of taxation reform are a significant disincentive for business investment. The result of that is higher than necessary levels of unemployment and slower than desired levels of economic growth.

In my limited experience, this reform of the poles and wires is an unusual issue because on one side of the debate we have literally every independent economic public policy body in Australia and globally saying that this is in the best interests of the consumers and the State. On the other side we have a limited number people arguing largely from an ideological viewpoint about their desired outcome in terms of ownership. This should be about the community of New South Wales; it should be about the future of New South Wales. The jury is in on whether public or private ownership of these assets offers better protections. Trying to raise $20 billion in tax when we have an inefficient public utility that will deliver a more efficient service once it is leased into a nationally regulated price control market structure offers a much clearer public benefit case than $20 billion in additional business taxation.

The Hon. Dr PETER PHELPS: Do you think that the Queensland Government's decision not to go ahead with its part privatisation of its electricity networks will result in greater competition and demand for the New South Wales assets and consequently increase their potential price?

Mr LYON: I have no doubt that that is the case. One of the analogies I use from time to time is that Australia is a little like our ice-skating champion Steven Bradbury in that the rest of the world is falling around on the ice and until now Australia has been a globally attractive destination for investment. We have seen that in terms of 25, 26 and 27 times multiples for seaports being privatised across the east coast. We have also seen it in terms of the scale of interest from Australian and offshore pension funds in the New South Wales and Queensland electricity markets. That means we have a very competitive field of capitalised mandated investors already here in Australia in the form of superannuation funds, Canadian pension funds and others.

I think we can be confident that there will be great interest in these assets. Provided we spell out the terms of the sale clearly—that is, things like the licence, the price commission and other things that have been discussed—the Government and the State should be very confident that there will be extensive competition and that we will get very good value for these assets. In addition, prices will be lower because of the increased efficiency and Sydney and New South Wales will begin to crack into some of the very substantial gaps in our infrastructure networks. It is the clearest win-win in public policy that I have seen. We are not inventing things like we did in the 1990s. The structures already exist and the wholesale market and national price regulation of the monopoly exist. This is not adventurism in policy; this is a financial transaction about rehabilitating the State's budget without slugging people with extra taxes.

CHAIR: Thank you very much for participating in this hearing and for your forthright comments.

Mr LYON: I thank the Committee for the opportunity to contribute.

(The witnesses withdrew)

(Luncheon adjournment)

VINCENT GRAHAM, Chief Executive Officer, Ausgrid, Essential Energy and Endeavour Energy, sworn and examined:

CHAIR: Would you like to start by making a brief opening statement?

Mr GRAHAM: As Chief Executive Officer of Ausgrid, Essential Energy and Endeavour Energy, I am responsible, together with a board, for the safety, reliability and customer affordability of the electricity distribution businesses in New South Wales. Each network is a separate State-owned corporation subject to the State Owned Corporations Act and the Electricity Supply Act. Under the New South Wales Work, Health and Safety Act, we are also responsible for public safety and the safety and wellbeing of employees and contractors engaged in these three networks.

In July 2012 the New South Wales Government initiated a Network Reform Program in response to consumer concern over four years of double digit increases in network electricity charges. The objectives of that reform program were to improve safety performance, maintain network reliability and contain any increases in network charges within CPI. The first three years of that continuing reform program are nearing completion and our objectives are being met. By 30 June this year we will have cut more than $3 billion of capital and operating expenditure approved by the regulator, safely and progressively removed approximately 3,700 jobs, removed 2000 vehicles from our road fleet and cut the annual overtime bill by $100 million per annum. Average network charges have been contained within CPI for the 2013 and 2014 financial years. However, much remains to be done.

Since 2009 our networks have been subject to regulation by the Australian Energy Regulator [AER]. The AER regulates electricity networks in all Australian States, with the exception of Western Australia and the Northern Territory, and is subject to national electricity law and national electricity rules. On 30 April this year the AER published the final determinations for our networks for the five-year period from July 2014 to June 2019. These determinations are the first to be made under new national electricity rules approved by the Council of Australian Governments. Last Friday I briefed our industry unions on the AER's final determination, and I table a copy of that briefing for the information of the Committee.

CHAIR: That is this document headed "Networks NSW"?

Mr GRAHAM: Correct.

The Hon. ADAM SEARLE: Are any of the State-owned electricity companies going to challenge the Australian Energy Regulator's ruling?

Mr GRAHAM: The final determinations of the Australian Energy Regulator are subject to an appeals process and potentially a Federal Court appeal and also an Administrative Decisions Tribunal appeal. Our board met on 7 May to consider this issue, and I have been instructed by our board to commence the preparation of necessary legal documents for an appeal pending a final decision on 18 May. The board has also formed a sub-committee to consider final legal advice on whether to appeal the regulatory determinations of Ausgrid, Endeavour Energy and Essential Energy.

The Hon. ADAM SEARLE: That would be across all three of those entities of which you are the chairman?

Mr GRAHAM: They are three separate determinations and it is possible that matters considered for legal appeal may be different in each of those entities.

The Hon. ADAM SEARLE: Are you able to tell us what the issues are that are informing your consideration around whether or not to appeal? Is there any particular area?

Mr GRAHAM: Without the benefit of the final legal advice, let me revert back to comments I made at a media conference on 30 November. At that time I said that we would assess the AER's final determinations against three criteria: safety, maintaining network reliability and customer affordability. At that media conference I expressed my concern around a number of specific issues. The first was funding for vegetation management and our bushfire risk mitigation programs. The AER has removed $192 million from Endeavour

Energy's vegetation and bushfire risk management program over the next four years. They have undertaken 30 per cent reductions to Essential Energy's operating expenditure. That is an aggregate cut to operating expenditure and Essential Energy's operating expenditure is dominated by labour costs and vegetation management costs.

The AER at Essential Energy has not been specific about what the cuts were to vegetation management or labour cost. They have imposed a 30 per cent aggregate cut to the total without any further safety risk assessment of what those aggregate cuts may mean. The AER has also, 10 months into this financial year, cut $870 million from the budgets they approved for this year back in April of 2014. The fact that the AER has declined our submission to provide for a sensible transition to efficiency improvements, that sensible transition includes the lack of funding for any redundancy costs for jobs that inevitably will need to go under the AER's final determination.

The Hon. ADAM SEARLE: Are you saying that as things stand the organisations will not be able to fund the necessary redundancies if the ruling stands?

Mr GRAHAM: No. I am saying that there is no funding provided by the regulator in their determination, and any funding for redundancies would have to be borrowings over and above the current revenue and funding for the business.

The Hon. ADAM SEARLE: There are no retained earnings it could be paid out of?

Mr GRAHAM: There are retained earnings in the business but those retained earnings are not cash backed. The cash would need to be borrowed.

The Hon. ADAM SEARLE: Have you had any discussions with any person in the Government about the appeals?

Mr GRAHAM: I have had conversations with Treasury about matters relating to this. I have had one conversation with the Treasurer which was part of our initial briefing to her.

The Hon. ADAM SEARLE: The current or the former Treasurer?

Mr GRAHAM: The current Treasurer. It was the initial briefing for her in her role, and there were a number of matters canvassed there. I did provide a briefing on the potential issues but received no direction from the Treasurer as to any course of action, which is a commercial decision of the board.

The Hon. ADAM SEARLE: Did you say the briefing to the current Treasurer was in documentary form?

Mr GRAHAM: No. It was a verbal briefing.

The Hon. ADAM SEARLE: It included the AER determination and the possible appeal?

Mr GRAHAM: Yes. I think I said that in my answer to your previous question.

The Hon. ADAM SEARLE: When did that briefing take place?

Mr GRAHAM: Around a fortnight ago.

The Hon. ADAM SEARLE: And you have not had discussions with any other Minister in the Government or ministerial staff?

Mr GRAHAM: No. As I said, I have had conversation with Treasury officials on this matter but again I just reinforce there has been no final decision made by the board. That will occur on 18 May.

The Hon. ADAM SEARLE: When does any appeal have to be lodged? What is the deadline for the AER?

Mr GRAHAM: By 21 May.

The Hon. ADAM SEARLE: So you have to have everything ready to press the go button should the board make the decision.

Mr GRAHAM: Yes, that is a reasonable assumption.

The Hon. ADAM SEARLE: If the current AER determination stands, what impact would it have on the value of each of the businesses in Networks NSW? Will it cause the value of the businesses to go up or down?

Mr GRAHAM: I am sorry, the issue of value and the general policy issues surrounding the transaction are not within my area of responsibility. I am charged with the operation of the current businesses, not matters of the transactional valuations for the transaction.

The Hon. ADAM SEARLE: So you have done no work on the value of your businesses either previously or—

Mr GRAHAM: No, I have not.

The Hon. ADAM SEARLE: Nevertheless you have held your current position since 2007?

Mr GRAHAM: No. I started at Endeavour Energy as Chief Executive in April 2008 and continued in that role until July 2012, at which time I took over the chief executive role for each of the three businesses, Ausgrid, Endeavour and Essential Energy.

The Hon. ADAM SEARLE: So you would have a fair degree of familiarity with the industry?

Mr GRAHAM: That is a reasonable assumption, yes.

The Hon. ADAM SEARLE: What cut to revenues across the three businesses will the AER determination create?

Mr GRAHAM: If I can take you to the presentation I have handed out, these slides are numbered for the benefit of the Committee, bottom left-hand side, if I could take you first to slide No. 5, which is Essential Energy. You will see top left of that slide the reduction in network revenue for Essential Energy is $1.72 billion.

Dr JOHN KAYE: Is that an annual figure or four years?

Mr GRAHAM: No. That is the five-year determination.

Dr JOHN KAYE: That is over the five years, okay.

Mr GRAHAM: If I take you to slide No. 7, the equivalent slide for Endeavour Energy, you will see the cut to revenue is $1.26 billion. Finally if I take you to slide 9 for Ausgrid you will see the cut to revenue is $3.178 billion.

The Hon. ADAM SEARLE: What is the rough percentage decrease in revenue for your businesses?

Mr GRAHAM: It is the order of the high 20 per cents.

The Hon. ADAM SEARLE: It is nearly 30 per cent.

Mr GRAHAM: It is 31 per cent, 28 per cent and 33 per cent respectively.

The Hon. ADAM SEARLE: So that is a significant hit on revenues.

Mr GRAHAM: Yes.

The Hon. ADAM SEARLE: And any sale price of any business is usually a multiple of its earnings or its capacity for earnings. So it stands to reason that if there is a nearly 30 per cent reduction in the value of the revenue streams there will be a reasonably similar hit on the value of the business. That is a reasonable inference to draw, is it not?

Mr GRAHAM: It is not my area of expertise. I only offer one comment. The value of a business is related to its profitability. Simply because revenue declines does not necessarily mean profitability declines. If there is an opportunity to adjust operating costs against declining revenue, clearly one can sustain some level of profitability.

The Hon. ADAM SEARLE: The AER suggests that you are running a very inefficient business. Do you accept that analysis by the AER?

Mr GRAHAM: Back in August 2012 I wrote an opinion piece of the *Australian* newspaper and I am happy to circulate a copy of that. You will notice in that article, well before the AER's draft determination, I pointed out the underlying inefficiencies of public sector ownership of these businesses, and specifically targeted in those comments two areas of criticism. The first is the lack of sharp focus on capital expenditure and capital efficiency. The second is the inefficiencies associated with operating expenditure. In that article in August of last year, I drew out some of the underlying reasons for the culture that pervades public sector ownership of these businesses and drew a conclusion that, in my view, electricity consumers in New South Wales were better served by the private ownership rather than public ownership.

The Hon. ADAM SEARLE: Mr Graham, in your presentation you outlined some of the achievements of your stewardship of the organisation: a significant reduction in jobs, significant reduction in operating expenditures, $100 million reduction in overtime and the like—$3 billion of expenditure reductions. They have all occurred under your management in the context of a publicly owned and publicly regulated system, have they not?

Mr GRAHAM: They have. The very fact we were able to achieve that is indicative of the position I took in that press article. There should not have been the extent of that inefficiency for us to pull out over the past three years. I said in my opening statement that the challenges of continuing to improve organisational efficiency remain. We are not having an argument with the Australian Energy Regulator about the fact that we have been, and, to an extent, continue to be inefficient. The argument we have with them is about transition; what is the ultimate point of efficiency and what is a sensible responsible pathway to get to that point.

The Hon. ADAM SEARLE: At the moment, you are not disagreeing with the AER about the level of reductions in revenue; it is merely the time period over which it will be achieved?

Mr GRAHAM: No, it is both, particularly in operating expenditure. The level of their reductions that they are proposing for our three businesses are based on a benchmarking model that we believe has some serious flaws. We are not accepting of the ultimate point that they believe constitutes what the economists call the efficient frontier. The end point and the transition to that end point are both matters where we have disagreement with the regulator.

The Hon. ADAM SEARLE: The issues you identified in your end piece are being addressed by the regulator's decision, anyway. They are driving changes in those areas. The direction you say the business needs to move in has already been driven by the regulator under public ownership, has it not?

Mr GRAHAM: No, only part. If you read the article, you will see I have some criticisms of the public sector culture of these organisations. I have some criticism in that article of the ongoing union shadow management of these organisations that has seriously restricted management prerogative—middle and supervisory managers getting on and doing the job in the interests of the consumers of New South Wales. I hold a firm personal view that that union shadow management creates a fundamental conflict within the employees, and I believe there is an ever present danger of recidivism under public sector ownership.

Dr JOHN KAYE: Mr Graham, are you aware of a company called Victoria Power Networks Pty Limited in Victoria?

Mr GRAHAM: No, sorry, I am not.

Dr JOHN KAYE: Do you know anything about the Victorian power network? You wrote an article for the people of New South Wales in which you purported to have expertise about public and private ownership, but you do not know about a company called Victoria Power Networks in Victoria?

Mr GRAHAM: I am aware of three companies in Victoria: SP Ausnet, CitiPower and PowerCor as distributors in Victoria.

Dr JOHN KAYE: Victoria Power Networks owns Powercor. The pay for the top 10 executives at Victoria Power Networks is $8 million a year. What is the pay for the top 10 executives in New South Wales?

Mr GRAHAM: I am happy to take that question on notice.

Dr JOHN KAYE: Would you be surprised if I told you that according to your annual report last year it was $4.4 million?

Mr GRAHAM: Let us start at the top, Dr Kaye. Perhaps you have the chief executive salary for the networks?

Dr JOHN KAYE: No, I am not interested in doing that.

Mr GRAHAM: That is a reasonable place to start on a comparator, I would have thought. You do not have the chief executive salary?

Dr JOHN KAYE: I do not have it with me.

Mr GRAHAM: I do not have the others with me either. I am happy to take your question on notice.

Dr JOHN KAYE: The Victorian power network has an annual revenue of $1.4 billion. Your network, Networks NSW, has an annual revenue of $6.9 billion. You would be aware of research around the world that says that privatisation massively increases the salaries of senior executives?

The Hon. CATHERINE CUSACK: What research?

Dr JOHN KAYE: Sorry, Catherine, you will get your chance. This is my chance. Are you aware, Mr Graham, of research around the world that shows that senior executives in utilities that are privatised see a three- or four-fold increase in their salary?

Mr GRAHAM: I am not aware of that research. I accept the generalisation that you make.

Dr JOHN KAYE: When you looked at the efficiencies of privatisation, you did not bother to look at the efficiencies that affected you personally?

Mr GRAHAM: The efficiencies of fundamental concern to me in my role are the safety of the network, the continuing reliability and security of the network, and the efficiencies that flow through in consumer pricing.

Dr JOHN KAYE: Mr Graham, surely you would accept that the people who currently employ you, the people of New South Wales, would be concerned about the idea that your salary, which is about $900,000 a year, would increase to $2.7 million a year by comparison with other networks.

Mr GRAHAM: I am sorry, I was a little slow getting to your point. Your point is that I stand to gain financially from the privatisation? Could I summarise your question that way?

Dr JOHN KAYE: The point I was making, if you would listen to the question, is: Would not the people of New South Wales, your current employers, be concerned that one of the consequences of privatisation is a massive increase in salaries of chief executives?

The Hon. Dr PETER PHELPS: Point of order. The member has asked the witness to express an opinion about the thought processes of the people of New South Wales. He could ask the witness about his own thought processes, but, with due respect to the witness, I do not believe he can offer any insight into the thought processes of the people of New South Wales.

Dr JOHN KAYE: That is your opinion. That is not a point of order.

CHAIR: Your time has exposed, anyway. Has Mr Borsak not returned?

Dr JOHN KAYE: Mr Borsak allocated his time to me. Mr Graham, you wrote this opinion piece for the *Australian*. At the time you wrote it, you were a public servant; is that right?

Mr GRAHAM: I am chief executive of a state-owned corporation.

Dr JOHN KAYE: Do you think it is appropriate for you to weigh into a hot button political issue in the lead-up to an election?

Mr GRAHAM: I do not think there is an individual in the State, Dr Kaye, who is in a better position to comment on the issue of ownership and the benefits or otherwise to the consumers of New South Wales.

Dr JOHN KAYE: As a public servant, surely you should be neutral in those debates?

Mr GRAHAM: As I say, I do not think there is anyone in the State who is in a better position to comment on that. I think it was a relevant comment for the chief executive of the three electricity distribution networks to make.

Dr JOHN KAYE: In no place did I read in this op-ed that you declare there might be a conflict of interest, that, in fact, you might be gaining dramatically from privatisation?

Mr GRAHAM: Let me put that issue to rest. Of course it was the inference in your earlier questions. I do not intend to seek any executive role in any of the businesses post-transaction. Does that help with both questions?

Dr JOHN KAYE: It helps with one of the questions, not both. It still leaves open that your piece is largely an attack on the union movement—let us be blunt about it, you are simply pouring out your angst on to the union movement. It does not talk about changes in the management culture. For example, the Australian Institute—

CHAIR: Can you frame questions, please, Dr Kaye, rather than commenting.

Dr JOHN KAYE: You still have not answered why you did not mention the increase in executive salaries in this article when you were so hell-bent on talking about labour problems?

Mr GRAHAM: The article speaks for itself. The issue of executive salaries and what may or may not occur was not the point I was seeking to make. The point I was seeking to make, and you will see that in a concluding paragraph of the article, was very much around the interests of the electricity consumers of New South Wales, which, in my view, have been poorly served by public ownership of these entities going back decades.

Dr JOHN KAYE: In your time as a senior executive in the electricity industry, would you say there has been a substantial growth in the number of management positions?

Mr GRAHAM: No, I would not say that.

Dr JOHN KAYE: What do you think the total growth in management positions across the electricity sector in Australia has been during the time you have been actively involved in the industry?

Mr GRAHAM: They are recorded accurately in the annual reports under the senior executive services grades.

Dr JOHN KAYE: Would it surprise you to hear that from June 1997 to 2012 the number of managers in the sector has grown from 6,000 to 19,000?

The Hon. CATHERINE CUSACK: Another Labor achievement.

Mr GRAHAM: Sorry, the number has gone from?

Dr JOHN KAYE: The number of managers in the electricity industry in Australia has grown from 6,000 to 19,000.

Mr GRAHAM: Dr Kaye, I have around 10,900 employees in the three businesses in New South Wales. To suggest—and I do not think you are suggesting—that your 6,900 figure refers to managers in New South Wales—

Dr JOHN KAYE: No, I said Australia and across the entire electricity industry.

Mr GRAHAM: I cannot speak for the Australian industry.

CHAIR: The witness is referring to New South Wales. That is his expertise.

Dr JOHN KAYE: You do not pay attention to what is happening in the industry elsewhere, yet in your article you specifically refer to comparisons to Victoria.

The Hon. Dr PETER PHELPS: Is there a question?

Dr JOHN KAYE: My question is, are you not concerned about the growth in the number of managers in the industry? Your article was a diatribe against the unionised workforce, but you did not mention the growth in managers and its cost.

CHAIR: Can you avoid using colourful language. Ask straight questions, thank you.

Mr GRAHAM: The reduction of 3,700 jobs since July of 2012 incorporates management positions, engineering positions and field positions.

Dr JOHN KAYE: Can you tell us on notice how many management positions went?

Mr GRAHAM: If you care to define the use of the term "management" for me, it will certainly aid me in preparing that response.

Dr JOHN KAYE: I will submit that formally in the questions on notice.

Mr GRAHAM: I ask you to be specific about the minimum salary band because we have enterprise agreement employees whose group certificates are in excess of $250,000 per annum, so it would be useful for you to define for me the bands that you are talking about.

Dr JOHN KAYE: I will. Sadly, my time has expired.

CHAIR: Thank you, again, for your attendance here today to help us. I was wondering about this: With the Australian Energy Regulator [AER], before they make those decisions, do they seek submissions from the organisations themselves? You referred to the problems over the lack of funding for vegetation and so on. Do they get a picture from you first, or are they working in a vacuum?

Mr GRAHAM: No. It is a four-step process. The process starts with the businesses making an initial submission. The regulator responds with a draft determination. We responded to that draft with a revised proposal, and then there is the fourth step, which is the final determination. It is a four-step process.

CHAIR: Do you feel your submission has been given the attention it should have been?

Mr GRAHAM: Our revised proposal to the regulator, across our three businesses, suggested that following 3,700 job reductions over the past three years, we were proposing a further 2,200 jobs to go in a progressive transition through to June 2019. The regulator rejected that position that we put forward. My second significant concern is with the regulator's failure, in my view, to put in place a systematic risk assessment of the magnitude of the cuts to operating expenditure. I have drawn out the Endeavour Energy cuts to vegetation management. For the third significant issue, I will take you to slide 21 on this particular slide pack. You will see on slide 21 the implications of the AER's final determination.

The Hon. ADAM SEARLE: I am sorry, whereabouts, Mr Graham?

Mr GRAHAM: It is slide number 21.

The Hon. Dr PETER PHELPS: It is the number on the bottom left-hand corner.

CHAIR: I see. We were looking at the numbers at the top of the page.

Mr GRAHAM: This slide is headed "Unfunded Jobs 2015-16". On the top line there for the three businesses, you can see the forecast employee numbers for 30 June 2015. The second line, which is in green font, is the jobs funded by the AER's final determination. The last line represents the jobs that are unfunded by the AER's determination. Not only are those 2,751 jobs unfunded but, because of the cut to the programs, there will be no work available for those 2,500 employees. The work has been cut. The funding for the jobs has been cut.

CHAIR: If there are such dramatic cuts, there will be no money for redundancy payments. Where would those funds come from?

Mr GRAHAM: They will have to be found—as I say, the cash found—through borrowings. That is a burden that will fall, via the businesses, to the taxpayers of New South Wales.

CHAIR: Have those figures being calculated—what it costs for those 2,751 employees? They have no choice, really; they will be made redundant.

Mr GRAHAM: In terms of the issue of redundancy, if I take you to slide 25 of this pack, the proposals for the next round of enterprise agreements that I have put forward are summarised on that slide. Part of our immediate concern is with 509 graduating apprentices, who graduate in 2015 and 2016. My proposition last Friday to the unions is that all employees across the business—managers and award employees—would have a wage freeze for two years to enable us to fund those graduating apprentices for a continuing term through to either December 2016 or, in the case of Essential Energy, June 2017. I have also put forward for negotiation in the next enterprise agreement the development of retraining and redeployment schemes to aid our employees, placing those excess employees in other organisations, and the negotiation of new redundancy arrangements in the next round of enterprise agreements, consistent with the Government's Managing Excess Employee Policy that is applied to the remainder of the public sector in New South Wales.

CHAIR: Thank you for your concern for the apprentices. That is very admirable.

The Hon. CATHERINE CUSACK: Mr Graham, is the usual staff turnover in these businesses down at the moment because people are thinking there might be a redundancy in the offing?

Mr GRAHAM: No. We have, as part of our reform program over the past three years, been using the voluntary redundancy arrangements. More recently, in preparation for the AER's final determination, we have had more general expressions of interest in redundancy that will see approximately 700 employees depart by the end of July this year. Those numbers I spoke to earlier assume that those 700 have already departed. There is a footnote to that table to suggest that.

The Hon. CATHERINE CUSACK: Is anyone retiring normally without a redundancy?

Mr GRAHAM: You do have an underlying attrition rate—not only people retiring but people moving interstate or for other family circumstances, but it is very low in these businesses.

The Hon. CATHERINE CUSACK: It is very low because most of them now have access to redundancy.

Mr GRAHAM: Correct.

The Hon. CATHERINE CUSACK: Normally you put apprentices in to replenish the talent. Is that turnover not happening normally at the moment, which is why you are finding it hard to absorb the apprentices?

Mr GRAHAM: Yes. I think obviously having reduced one in four positions in these organisations, which has been one in four over the last three years, clearly there is a point at which the appetite for voluntary redundancy does dry up.

The Hon. Dr PETER PHELPS: Mr Graham, you seem to express concerns about archaic work practices that have been enforced by the culture. Could you give examples of how the existing work practices make it difficult to be competitive in a modern business?

Mr GRAHAM: Thank you. The challenge to job security for these organisations going forward is really twofold. Clearly, the AER final determination imposes funding constraints, but beyond that the lack of competitiveness of aspects of our enterprise agreement mean that our ability going forward, or the ability of own employees going forward, to successfully compete in the outsourcing program that we have developed—that lack of competitiveness in these enterprise agreements inevitably means our own employees will struggle to successfully bid for those safe outsourcing programs. In a couple of areas where we currently have on the table for discussion in that respect, our employees, including myself, enjoy long service leave and superannuation arrangements that I think are well out of step with the community.

With more than 10 years service, long service leave is 2.6 weeks per annum. Our industry standard in other States is 1.3 weeks per annum, so we are double the standard. With superannuation, our employees in accumulation funds enjoy 15 per cent employer contribution to superannuation, but those in defined benefit funds can get up to 26 per cent employer contribution. Ausgrid enjoys 18 days per annum of sick leave/personal leave. They are some of the more general issues. When it comes to calling out employees for overtime—

The Hon. Dr PETER PHELPS: This is the operational side?

Mr GRAHAM: This is the operational side. An employee who is called out for a one-our job is paid a minimum of four hours at double time, so there is eight hours pay for one hour of work. I am not suggesting it should be one hour's pay. To call somebody out in the middle of the night, obviously they are entitled to something additional, but eight hours pay for one hour's work does not seem to me to be an appropriate balance.

The Hon. Dr PETER PHELPS: Is there any capacity for you to outsource, or does first right of the job go to existing employees?

Mr GRAHAM: No. We have been undertaking outsourcing programs as part of our reform program over the last three years. We have, for example, contractors safely performing pole replacement of condemned poles on the network. All of the quarterly meter reading at Ausgrid, Endeavour and shortly at Essential will be undertaken by contract employees rather than internal employees. For the benefit of the electricity consumers, safely prosecuting those outsourcing arrangements in the future will be of continuing benefit to consumers.

The Hon. Dr PETER PHELPS: Is it accurate to say that, irrespective of the actual ownership of these corporations, a significant restructuring in the way that particularly the labour force does business is going to be necessary in any case, irrespective of the ownership structure.

Mr GRAHAM: Correct.

The Hon. CATHERINE CUSACK: Are there any conditions placed upon employees taking a redundancy and then for them returning as contractors?

Mr GRAHAM: Yes. There is a general restriction under the Premier's department guidelines. There is a restriction placed on employees returning immediately to another job. They can do so but they forfeit the time-based redundancy payment that they have achieved.

The Hon. CATHERINE CUSACK: Right. Is there a time limit to that?

Mr GRAHAM: Yes, there is. For example, an employee who has the benefit of six months under the redundancy formula cannot return within that six months.

The Hon. CATHERINE CUSACK: After that, he can return is a contractor.

Mr GRAHAM: Yes.

The Hon. SCOTT FARLOW: Mr Graham, I have just a few short questions. You would be familiar with the Ernst and Young report that shows over the period from 1996 to 1997 in Victoria, we saw reductions in network costs of 18 per cent; in South Australia, 17 per cent; and yet in New South Wales we saw a 122 per cent increase. From your experience, what are your observations as to how those States were able to achieve those efficiencies whereas New South Wales saw our network costs balloon, effectively?

Mr GRAHAM: When you look at the reasons for those increases, one is to do with what is called the weighted average cost of capital. Back in 2009 when all of the New South Wales regulatory determinations were reset, it was immediately after the global financial crisis and world interest rates and capital markets were extraordinarily high. We now have exactly the reverse circumstance in this regulatory reset in 2015. Those same factors are at record lows internationally, which is helping to drive the benefits for consumers. But two very significant issues in New South Wales relative to the other States are the focus on capital efficiency—having a very sharp financial pencil when looking at where you are going to invest your money in the network—and the second is the lack of productivity and uncompetitiveness, to which I referred earlier, of the labour arrangements and the price agreements.

CHAIR: Summing up your attitude to the leasing proposal of the electricity transmission poles and wires, what is your recommendation?

Mr GRAHAM: From my personal perspective, that determination is a matter for government and government policy. In reframing that question to: What is in the interests of consumers of New South Wales—

CHAIR: Yes. I reframe it.

Mr GRAHAM: —I have no doubt that the interest of electricity consumers in New South Wales would be well served by the implementation of what the Government is proposing. As a final point for the Committee's purpose my overriding concern with the Australian Energy Regulator's proposal is public safety and transition. I would like to leave the Committee with two extracts from two royal commissions that are appropriate to the point I make. The first is an extract from the Bushfire Royal Commission in Victoria that gives very wise counsel about making absolutely certain that investments in the electricity network are in accord with the best interests of public safety.

The second quote from the royal commission is the Commonwealth Government's Home Insulation Program where the royal commissioner gave very clear advice to the Commonwealth Government to undertake appropriate risk assessment prior to imposing determinations on the States and Territories. I will leave a copy of both of those extracts with the appropriate paragraphs highlighted for the Committee's information.

CHAIR: The Committee would appreciate it if answers to questions taken on notice be returned within three calendar days following receipt of the transcript.

The Hon. ADAM SEARLE: We will have some more questions for you.

(The witnesses withdrew)

JIM BETTS, Chief Executive Officer, Infrastructure NSW, and

AMANDA JONES, Chief Operating Officer, Infrastructure NSW, affirmed and examined:

CHAIR: Do you wish to make an opening statement?

Mr BETTS: It will be a brief statement. Thank you for the opportunity to give evidence today. By way of background Infrastructure NSW was established in 2011 as a statutory agency reporting to the Premier. We have a board with a majority of independent members and a small staff of about 20 people. Our key functions, as defined in legislation, include the preparation at least every five years of a 20 year State Infrastructure Strategy for submission to the Premier and consideration by government. Infrastructure NSW also performs statutory functions in relation to Restart NSW, a fund established under legislation to hold the proceeds of, among other things, the sale and long-term lease of former State assets.

In June 2014 the Premier announced the Rebuilding NSW initiative, and under section 16 (3) of the infrastructure NSW Act 2011 asked us to provide him with independent advice on the best use of the forecast $20 billion of proceeds from the long-term lease of 49 per cent of the electricity transmission and distribution networks. In doing so the Premier asked us to take into account a number of State strategic priorities which are listed in our report. Our advice was submitted to the Government in November 2014, and included some 83 recommendations. The Government accepted those recommendations and, as the legislation provides, it published its own State Infrastructure Strategy, Rebuilding NSW, shortly afterwards.

Infrastructure NSW is not directly involved in planning or implementing the poles and wires transaction. Rather, our role has been simply to advise the Government on the priority areas for investing the proceeds from that transaction. In performing that task our aim has been to target infrastructure projects and programs which will provide the greatest economic and social benefit to the people of New South Wales. Our focus has been on projects which will boost the economy by improving productivity and supporting the needs of a growing population. We have found that a number of high-value projects, including major upgrades to roads, public transport, schools, hospitals, cultural institutions and regional infrastructure can be accelerated as a result of the proposed lease of electricity assets. Our report is published on our website in long form and in summary. We are happy to take any questions on the report and the investments that it proposes.

The Hon. ADAM SEARLE: In the Infrastructure NSW document, recommendations to the New South Wales Government November 2014, your chairman says that this document is a response to a request from the Premier. I think at paragraph 1.1 it is outlined that on 31 July the Premier wrote to Infrastructure NSW asking the body to update its strategic priorities for infrastructure. The Premier then sets out a series of bullet points. I think the letter is replicated at that point in the report. The report itself seems to be a complete replication of the priorities identified by the Premier. Is that a fair assessment?

Mr BETTS: The letter from the Premier is a one page document. Our report runs to more than 200 pages and has lots of detailed analysis supporting it. The legislation under which the Premier commissioned us to undertake the work specifically entitles him to direct us to take into account a series of priorities of his choosing. Certainly in terms of structuring our advice, we were guided by the headlines which were in the Premier's letter but that is not to suggest that the Premier's letter in any way pre-empted the content of our analysis. We were asked to consider, for instance, the merits of the Sydney Rapid Transit project which we did. We did that over a number of months and in close cooperation with the transport department, drawing on the evidence that it is gathering. We highlighted the strategic merit of that project but we also pointed to more work that needs to be done before the Government would be in a position to take a confident investment decision.

Similarly in the Premier's letter he asked us to take a look at regional road investment and identified an expected contribution of around $1 billion. We actually found that there was merit in a significantly greater investment than that. In a number of other ways, our report augments the initial framework which the Premier articulates but, importantly, it responds to it in a much more detail than the Premier's letter initially. So to suggest that the Premier's letter simply is replicated in our report is not fair.

The Hon. ADAM SEARLE: Did Infrastructure NSW determine these infrastructure priorities set out in this document?

Mr BETTS: Yes.

The Hon. ADAM SEARLE: How were they determined?

Mr BETTS: Having been given the initial remit by the Premier, we had reference to our founding legislation, the Infrastructure NSW Act 2011 but also, importantly, to the Restart NSW Act 2011 which specifies the criteria against which Infrastructure NSW is to consider proposed infrastructure projects and make recommendations. Generally speaking we recommend projects where they have clear strategic merit, where they have a business case behind them and where they have a benefit cost ratio of greater than one. Many of the projects that we were looking at in the context of this State Infrastructure Strategy were at a relatively early stage of development so we were primarily guided by whether they had strategic merit as projects. We were primarily guided by the agenda around promoting economic growth which is there in the Restart NSW legislation.

The way in which we interpreted projects which would support economic growth was by reference to three main things. The first and in many ways the most important was boosting productivity whether that took the form of more efficient transport systems enabling goods to be brought to markets more efficiently, or more efficient public transport systems enabling people to get to work in the global economic corridor more readily, or boosting the visitor economy through investment in cultural institutions or sports stadia or whatever it might be. So productivity was a very important consideration.

Second, was supporting population growth, as I said in my opening remarks. The future economic growth of New South Wales depends critically on its capacity to grow in terms of population. The forecast population growth is 1.6 million between now and 2031. Infrastructure is necessary to ensure that that population growth, much of which will be concentrated in two main growth areas and in established suburbs, does not come at the cost of the liveability of efficiency of the city. We also looked at the workforce participation, for instance, through investment in schools and health infrastructure. So in that sense we set our own agenda in terms of determining priorities but we worked closely with agencies across the infrastructure sector to draw on the work that they had already done, to critically examine it and to provide our own independent analysis to government.

The Hon. ADAM SEARLE: Throughout the document but particularly from page 154 onwards you have a summary of all the projects with a description and your recommendation of how much should be allocated. I think you recommend something just under $19 billion worth of spending from Rebuilding NSW Fund. Were those dollar figures suggested to you by the Government or by anyone in the Government or were they independently reached and verified by your organisations?

Mr BETTS: They were reviewed by our organisation on the basis of analysis which had been undertaken by government departments. So whilst the Premier identified initially in his commissioning letter some broad orders of magnitude for us to consider, particularly around schools and hospitals investments, for instance in relation to a project like Sydney Rapid Transit the documentation that we looked at to arrive at the dollar figure which we recommend was a preliminary business case undertaken by Transport for NSW. We examined the assumptions in that business case. We reviewed the documentation that the Department of Transport had prepared and we arrived at our own independent conclusion about what an appropriate recommendation was, recognising that more work needs to be done to finalise the dollar figures associated with each of those major projects or programs.

The Hon. ADAM SEARLE: You do not say those figures are accurate, you just reviewed what the departments had done, you looked at their methodology and you have said it is more or less in the ballpark in terms of the methodology?

Mr BETTS: Certainly we are not saying that they are accurate to every last dollar but they look like the most reasonable estimates that can be developed on the basis of the work that has been done to date, and that is why we recommend further work being done before final investment decisions are being taken. And that is the nature of the way projects are developed. You start off with an initial concept, an initial scope, you do initial costings and then more work needs to be done before you can put precise figures around particular projects or programs with confidence. Good governance and good practice suggests that more work should be done and that is what we are recommending.

The Hon. ADAM SEARLE: In relation to the second harbour crossing approximately $3.4 billion is already in the forward estimates and the document recommends another $7 billion.

Mr BETTS: I am not sure the $3.4 billion are in the forward estimates.

The Hon. ADAM SEARLE: Okay, about $10.4 billion is earmarked but the Parliamentary Budget Office assessed that project as being nearly $11.5 billion which is quite a big difference. What level of confidence can we attach to the dollar figures in your report, given the caveats you have outlined earlier?

Mr BETTS: A reasonable degree of confidence, a strong degree of confidence on the basis of the recommendation that we make for further work. I think we made clear in the report that the $10.4 billion total estimate for the second harbour crossing, as you call it, Sydney Rapid Transit is a mid-range of an estimate which is broadly between $9.5 billion and $11.5 billion and say our figure of $10.5 billion. But we certainly recommend that as the business case is developed between now and the end of the year that figure be critically examined and that work is being done as we speak.

The Hon. ADAM SEARLE: But that is in today's dollars. Part of this transaction proposal is to invest any proceeds of any sale to generate more money, we do not quite know how long for but it could be up to 10 years. The costs of a project like this could balloon very significantly in that time period to a point where it would no longer be viable.

Mr BETTS: I think I am correct in saying that that figure of $10.4 billion is actually in nominal dollars. Generally speaking, the figures which are in the report are in the dollars of the day rather than in today's dollars.

The Hon. ADAM SEARLE: When you say 10.4 are you saying $10.4 billion in 10 years' time?

Mr BETTS: No, I am saying $10.4 billion on the basis of an assumed spend profile over a period to 2024. So expenditure will be incurred from about 2017 onwards through to 2024 on the assumptions that we have used. You are right to say that project cost needs to be proved up, which is why we took a mid-range estimate.

The Hon. ADAM SEARLE: But if the transaction, for example, happens towards the end of this year or early next year and then the proceeds are invested for, say, 10 years to generate more interest, that time frame gets blown out considerably, does it not?

Mr BETTS: I am not sure I follow your logic.

The Hon. ADAM SEARLE: The Government thinks it is going to yield $13 billion net from the sale and they are going to invest it and achieve another $5 billion. On current interest rates that means it has got to be invested with no drawdown for at least 10 years, just as a matter of basic mathematics, and that takes your time frame for that project well outside what you have just outlined.

Mr BETTS: We were not asked to critically examine the assumptions underlying the $20 billion; we were asked to provide advice to the Government on how the $20 billion should be expended. But clearly we would assume that it will take some time to develop the projects to the point where investment decisions are ready; hence my reference to developing a business case for Sydney Rapid Transit by the end of this year and that work would begin on that project in 2017. But it would have what is known in construction circles as an "S" curve, so there would be a period of time over which that expenditure would occur, which means that not all the proceeds would be expended on day one but they would sit in a bank account incurring interest in the interim.

The Hon. ADAM SEARLE: In your chairman's letter you mentioned that many projects since 2012 have moved from the concept of business case to planning approval and, in some cases, to construction. Looking through the list of your recommendations, and I am happy for you to take this on notice, which ones have scoping studies done for them, which ones have detailed plans or what level of detailed planning has been done for each one in that list, just so we can get a sense of how firmly established these particular projects are or whether some of them are really just concepts?

Mr BETTS: We are happy to respond to that. I would hope that as you go through the report you get a sense of the work that has been done and the work that remains to be done, and in many cases we recommend further work. But we are happy to provide you with that. I guess the range of definitiveness and the range of levels of development are from early concept design through to being placed at the completion of a business case. But we are happy to provide you with an analysis. It varies project by project.

The Hon. ADAM SEARLE: My sense is that none are close to completion in terms of the detailed planning work.

Mr BETTS: No, I do not think that is fair. Obviously the more complex and the larger certain projects are the more time needs to be invested to make sure that they are appropriately assured. But in some cases—for instance, more targeted projects around the road network—they are very close to being investment ready.

Dr JOHN KAYE: Mr Betts, Premier Baird says that $2 billion will be available from Restart NSW to be used in the Rebuild NSW $20 billion expenditure. Is it your understanding that $2 billion is there to compensate for the fact that it would be very hard to put $13 billion into the account and then earn $5 billion of interest on that and spend the money at the same time?

Mr BETTS: I am not sure that that is the rationale. I thought it was rather that a balance was sitting in the Restart NSW fund, and with the Government committing to a very, very ambitious program with infrastructure over the coming period it was thought prudent that the Government hold that $2 billion as, if you like, a contingency against the overall program whilst that further project development work was undertaken.

Dr JOHN KAYE: So the $2 billion is a contingency fund?

Mr BETTS: Effectively, that is my understanding that the intention was that the $2 billion be held as a prudent contingency as the further work is done.

Dr JOHN KAYE: Have you done the numbers on this $5 billion interest off $13 billion?

Mr BETTS: No.

Dr JOHN KAYE: Have you tried to work out how that works?

Mr BETTS: We responded to the question which was asked of us, which is how could the Government best prioritise its expenditure within a $20 billion envelope over a 10-year period. It was not our remit to challenge the $20 billion figure that was given to us.

Dr JOHN KAYE: You have not looked at the arithmetic around the idea that you can earn $5 billion in interest off $13 billion investment and spend the $13 billion at the same time?

Mr BETTS: That was not the question that we were asked. Our question was about priorities.

Dr JOHN KAYE: Can I ask you another question? Were you asked at any stage to do scenario studies on if it was not $20 billion, if it was $16 billion or $18 billion? Did the Government ask you to look at different expenditure patterns?

Mr BETTS: No. We looked at a range of different options, a range of different projects which the Government could afford within its $20 billion envelope and provided commentary on the merits of those projects, which I guess would have meant that should the Government decide that it wanted to spend less than the $20 billion it would be able to use our analysis to guide it as to how to spend the lesser amount most effectively.

Dr JOHN KAYE: You are saying they could use your analysis to adduce a priority list?

Mr BETTS: Absolutely.

Dr JOHN KAYE: But some of the projects you are suggesting mix and match—they actually fit together. Is that correct?

Mr BETTS: Yes, and where there are inexorable linkages we have attempted to identify those. For instance, what is characterised as the Western Sydney Rail Upgrade program is very important. One billion dollars of expenditure to improve rail services for the 30 per cent of commuters who use the western and northern lines is very closely related to the Sydney Rapid Transit project. So that is a linkage which we draw explicitly in our report. In other cases there are programs which are entirely independent of each other and can be treated accordingly for the purposes of government decision-making.

Dr JOHN KAYE: In that report the Government has that information.

Mr BETTS: Yes.

Dr JOHN KAYE: So they would be able to work out a priority list of projects?

Mr BETTS: Yes.

Dr JOHN KAYE: Were you asked at any stage to assess the economic benefits of these options, the benefits to the entire economy of these options?

Mr BETTS: Yes. Amanda can speak to this in detail. We commissioned advice from Deloitte Access Economics on the overall package. Their report is published on our website and Amanda can give you more detail on how DAE went about their work.

Ms JONES: Deloitte Access Economics developed a model of the New South Wales economy first in about 2010 and when we did our initial State infrastructure strategy in 2012 we asked Deloitte to look at the economic consequences of the investments proposed. This modelling work has been built up over a number of years now. So again, in 2014, we asked Deloitte to look at the economic impact of the investments being recommended. Deloitte concluded that over the 20-year period an additional contribution to the gross State product of about $31 billion would be made and about 122,500 new jobs, full-time jobs.

Dr JOHN KAYE: The $31 billion is cumulative or annual?

Ms JONES: It is cumulative over the period.

Dr JOHN KAYE: And the period, again, was?

Ms JONES: Twenty years—so from 2015 to 2035. It looks at the economic impacts from particularly the transport effect on industry productivity. The productivity costs of not doing something are fairly substantial, as we identified in our report as well. It is a fairly conservative view; it does not include broader welfare effects of, say, investments in hospitals and schools; it is a very focused view on the productivity of the economy and the ability to support an increased population.

Dr JOHN KAYE: The Deloitte's work was project by project, was it?

Ms JONES: The Deloitte's work included the projects that we were prioritising.

Dr JOHN KAYE: So the $20 billion worth of projects?

Ms JONES: The recommendations we made. It was just under $20 billion. As I mentioned though, the direct benefit of things like schools and hospitals are not actually able to be forecast in this kind of model so the forecast is conservative in that sense.

Dr JOHN KAYE: So there was no assessment made of a smaller suite of infrastructure spend?

Ms JONES: For this modelling result, no. This model was the total value of the package being recommended.

Dr JOHN KAYE: How did you arrive at the priorities in those projects?

Mr BETTS: As I have explained, we applied filters particularly around productivity and capacities for population growth. We then identified what we thought were the key strategic challenges; for instance, confronting metropolitan Sydney in terms of productivity. So we looked at congestion on the road network, we looked at rises in public transport usage projected over time, the impact that that might have on the train system and the train system's capacity to move people efficiently around the city, and that provided the broad strategic framework which we then populated with individual projects to address the challenges across the different, say, modes of transport.

Dr JOHN KAYE: So you never tested the economic benefits of those projects that you did not prioritise, for example?

Mr BETTS: If we did not prioritise them it is either because they did not exist or because they did not have economic merit in our view. Those projects which we have recommended we think have strong strategic fit and many cases have been subjected to a preliminary business case analysis, which suggests that they have strongly positive benefit cost ratios.

Ms JONES: I think it is worthwhile noting as well that the 2014 update was really an update; it stood on the shoulders, if you like, of the 2012 body of work. Many of these projects are identified as accelerated; they are not new ideas or new priorities, it is just that they are coming forward.

Mr BETTS: That is a really important point. The opportunity that is created by the transaction is to accelerate projects which would otherwise be unaffordable within the 10-year period. So if we think about a metropolitan train system where in the peak hour usage is growing by 2.7 per cent per annum and we forecast the impact that that is likely to have in terms of overcrowding and operational performance on the busiest lines on the network, under its existing capital plan transport would be unable to invest in a project like Sydney Rapid Transit. The additional funding available in the near term as a result of the transaction means that that project can be brought forward and the benefits associated with it can flow sooner to the community.

Dr JOHN KAYE: Did you look at the carbon footprints of the different projects you were suggesting?

Mr BETTS: No, although we would expect environmental costs and benefits to be canvassed extensively in the business cases that support this process.

Dr JOHN KAYE: But when you were developing your priority list you did not look at the climate consequences of what you were doing?

Mr BETTS: We basically operate within the existing traffic models and attempted to find ways—for instance, in the case of motorway investments—of tackling the impacts in terms of amenity and air quality by segregating car traffic flows onto motorway networks as opposed to them rat-running through congested suburban streets. But to suggest that we did a lot of work in terms of identifying the carbon impacts of specific projects, no we did not.

Dr JOHN KAYE: So when you recommended the list to the Government you did not look at what the climate consequences were? You did not prioritise, for example, rail over road because rail has a lower per passenger kilometre carbon footprint?

Mr BETTS: No. What we recommend is the application of economic cost benefit analysis, which includes consideration of environmental impacts associated with individual investment decisions.

Dr JOHN KAYE: Do you recommend that for after the priority list has been drawn up or in drawing up the priority list?

Mr BETTS: In drawing up our priority list, in each case we recommend that further work be undertaken before the Government makes final investment decisions, and you can see that set out in table 12.1 in our report. For each of the key projects we identify the next steps. In many cases that involves the generation of business cases, and it is standard practice to include in business cases an analysis of environmental impacts.

Dr JOHN KAYE: Is that not too late? You have told the Government that here are the 25 or 30 projects; these are the must-have projects for a modern Coalition government in New South Wales—go build. By the way, at some stage you are a bit worried about whether it is going to wreck the planet or not. Is that kind of what you are doing?

Mr BETTS: No, we are not. We are suggesting that these projects are strategic priorities and now should be developed to a point where they become investment decision-ready. But within those projects there are always options for enhanced environmental mitigation. These are the things that you explore during the course of a business case, you explore during the course of value engineering, but you have to have a starting point and our starting point is to say that these projects have strategic fit, and of course environmental objectives are important just as economic objectives are.

Dr JOHN KAYE: But you did not model them? You say they are important but the list that you gave to the Baird Government, which they then put into their election Rebuild NSW platform, which are now kind of a holy writ for which they claim a mandate, you did not model them when you gave them that list and it does not look like they modelled them afterwards to see what they would do for the State's carbon emissions.

Ms JONES: I am not sure of the capacity to model a greenhouse effect at the individual project level. But on balance I think there is more recommended investment in public transport than there is in motorways between both the 2012 and the 2014 reports that were commissioned. Where we did take greater input from modelling of environmental impact of weather patterns was where we looked at regional water security in this report but that was because we were able to do that.

CHAIR: Just to clarify the idea of priorities, for example, the list from the Premier talked about the Western Harbour Tunnel. Where would that come in the list of priorities, would it be number one or number 20?

Mr BETTS: I think the first priority in terms of augmentation and enhancement of the urban motorway network is to build WestConnex, so the upgrade of the M4, the M5 and the connection between them. What we recommend is that the Western Harbour Tunnel be ready for consideration so that it can become the next stage in the augmentation of Sydney's motorway once WestConnex, as currently conceived, has been built. Potentially, the Western Harbour Tunnel could be built in parallel with stage three of WestConnex, which is the link between the M4 and the M5.

CHAIR: Roughly what year would that be?

Mr BETTS: Our view is that the Government should be ready to make investment decisions on that so that the project can be built within a 10-year time frame, but there is flexibility built into the plan about how we do that. When we talked before about a natural sequencing which sometimes occurs with projects, WestConnex is a precursor and a prerequisite for the Western Harbour Tunnel.

CHAIR: The Western Harbour Tunnel could be built within the 10 years or you would start building it at the end of 10 years?

Mr BETTS: That will be a choice for the Government. We have said that it is a strategic priority. The Government should do the work so that it can take investment decisions within the next two years confident that it understands the cost and the scope of that project.

CHAIR: The Government could rearrange these priorities?

Mr BETTS: Absolutely. Our advice to government is simply advice to government. The Government chose to accept our recommendations but it is always the capacity of government to make further, more detailed decisions over time.

Dr JOHN KAYE: Ms Jones, did I hear you saying that it is not possible to estimate the emissions associated with these projects?

Ms JONES: No, I said I do not know if it is possible. Certainly at a project level environmental assessment must be done but I am not sure if you could do climate modelling. You asked about the greenhouse footprint.

Dr JOHN KAYE: I did not ask about climate modelling. I asked about greenhouse gas emissions.

Mr BETTS: Certainly then if we are looking at individual projects like a Sydney Rapid Transit you would look at the impact that that would have in terms of its ability to affect mode shift from private cars into mass transit and then you would be able readily to calculate the impact in terms of reduced greenhouse gas emissions associated with that particular investment decision.

Dr JOHN KAYE: Surely with a motorway such as WestConnex you have some view of the number of vehicles that will use it and the emissions per vehicle. Surely part of your consideration could have been the consequences for the State's carbon emissions.

Mr BETTS: Yes, that is exactly right.

Dr JOHN KAYE: But it was not.

Mr BETTS: No, we would look at travel modelling—

Dr JOHN KAYE: When you say "would" do you mean "did" or "would like to"?

Mr BETTS: In the case of WestConnex, that is a project which the Government is committed to and which has been subject to a business case so, yes, environmental impacts have been looked at in that context. When you are looking at a motorway project of that kind you are looking at traffic forecasts with and without the investment. In many cases you are looking at traffic being stuck in traffic jams as a result of failure to relieve congestion, which in itself is not a good environmental outcome. The assumption that investing in roads necessarily has adverse environmental impacts is not a conclusion that I think necessarily holds water.

The Hon. CATHERINE CUSACK: Your report is fascinating. A lot of publicity has been given to reducing traffic congestion for commuters but you say that Western Sydney has 47 per cent of residents but 37 per cent of jobs and linking employment lands together through those transport and freight routes is critical. I wonder if you would expand on that. It is important to reduce people's time in traffic jams but getting the containers from the eastern seaboard into the west is also important to create jobs.

Mr BETTS: Yes. There is a big story in our document about Western Sydney, about its economic needs in terms of the creation of jobs and about population growth and how that can best be supported. If you think about a municipality like the City of Liverpool, think about the scale of infrastructure investment that will to be going into that municipality in the next 10 or 20 years with the Western Sydney airport, the $3.5 billion worth of State- and Commonwealth-funded roads infrastructure to support that investment and the Moorebank Intermodal Terminal. There is a major investment going into Western Sydney.

Similarly, with the development of Parramatta as Australia's principal second CBD within a metropolitan area and the investment that we recommend there combined with investments in the trunk motorway network, for instance through WestConnex with the upgrades of the M4 and the M5, linking Sydney together far more effectively and efficiently than it has been in the past is a big part of our strategy. And so it needs to be, because the scale of the growth that is envisaged for Western Sydney in the coming decade is enormous and the infrastructure associated with that needs to be on a similar scale.

The Hon. CATHERINE CUSACK: Reducing congestion is not only about better links but also about ensuring that jobs growth occurs closer to the population centres of Western Sydney?

Mr BETTS: That is right. If we think at the moment about firms which are required to locate reasonably close to the port, the airport or the CBD because they cannot rely on efficient access further out, to the extent that we are reducing congestion through investment like WestConnex we are actually improving the reliability of our road system across the whole of the city. That means that those firms can choose to locate jobs in Western Sydney closer to where that population growth is going to occur. These investments have an impact not just in terms of reducing journey times for the commuter today but in terms of reshaping the industrial geography of our city and bringing jobs closer to people. It also means that by providing more efficient investments in the existing road network to declutter that network, remove pinch points and so on more people are able to live close to the centre of the city without imposing unacceptable levels of congestion on the network. It really is about changing the industrial geography and bringing jobs and people closer together.

The Hon. Dr PETER PHELPS: Would there be any hope whatsoever of building all of the items committed to in Rebuilding NSW in the time frames put forward without the sale of poles and wires?

Mr BETTS: It is very hard to envisage how that could be the case. The forward investment program that the Government has is an ambitious one already. When we look at projects like Sydney Rapid Transit, as I said before, there is some money over a 10-year period for a project like that but, really, it would not be affordable without the additional $7 billion that we have recommended on the back of the poles and wires proceeds. This is about making stuff which would otherwise not be possible in 10 years possible in the foreseeable future.

The Hon. Dr PETER PHELPS: I have heard some people say that if we have a problem with lack of public transport capacity why don't we simply put on more trains? What is the problem with the "more trains" argument?

Mr BETTS: The problem with the "more trains" argument is that in many cases our networks are already reaching the limits of their capacity. If you think about the western line out to Parramatta, without significant upgrades to that line, significant improvements to power supply and significant improvements in station capacity we will very soon reach the limits where we can no longer put more trains on that network. Sydney Rapid Transit is such an important project because it breaks that nexus and frees up capacity in the centre of the city. More and more investment is required as we reach limits. For five years I was in charge of the transport department in Victoria. We saw very rapid growth in patronage on our rail system and we saw the very adverse impact that had in terms of punctuality and reliability in the absence of very significant investment. At least in Sydney now we are ahead of the curve and we have the capacity to invest before congestion really hits our rail system.

The Hon. Dr PETER PHELPS: Is it the case that without an additional crossing for public transport you simply cannot squeeze more trains through the Wynyard, Town Hall, Central corridor?

Mr BETTS: Yes, those stations in particular are becoming very congested both in terms of the number of trains going through the platforms at those stations and also the flows of passengers around station platforms.

The Hon. Dr PETER PHELPS: If you do have a genuine commitment to public transport you need to find alternate routes, particularly across the harbour?

Mr BETTS: Yes, certainly—and certainly over the 10-year time frame that we are looking at. Our plan suggests that that project could come on stream as early as 2024. By that stage there will be significant congestion on key parts of Sydney's rail system but it will be a game changer in terms of a 60 per cent boost in capacity.

The Hon. Dr PETER PHELPS: Of course, any delay beyond that time will simply result in increased congestion on an already congested system?

Mr BETTS: If patronage on the rail system continues to grow, and I think most of us would want it to continue to grow.

The Hon. DAVID CLARKE: But to have these game changers that you referred to we need the proceeds of the electricity lease?

Mr BETTS: In order to get the full package that we are describing, absolutely.

The Hon. DAVID CLARKE: What do you say to those who put forward that we should just go out and borrow that money?

Mr BETTS: It is not my job to design the fiscal strategy for the State but I think both sides of politics in New South Wales, as I understand it, or all parties in politics are committed to the retention of a triple-A credit rating. I think you would need to look very closely at whether the triple-A credit rating was sustainable if you were simply to go out and borrow all this money without having the revenue boost that comes from the poles and wires transaction and also the retirement of debt associated with it. I have to emphasise that that question was not one that we were asked to examine.

The Hon. Dr PETER PHELPS: On that point, would you say that Infrastructure NSW would be in favour of asset recycling where it is possible?

Mr BETTS: We have looked at all the different sectors in infrastructure and, generally speaking, we have found that provided appropriate regulatory mechanisms are in place—and you would look at the Australian Energy Regulator and say that is a prudent regulator—then there is significant benefit to be gained through the involvement of the private sector in the supply of infrastructure services generally. It is now pretty much accepted that the private sector should participate in delivery of tolled motorways.

The Hon. Dr PETER PHELPS: Which we were once told could not be built by anyone other than the government.

Mr BETTS: We see private sector firms delivering bus services very capably across a number of our suburbs. In other jurisdictions the private sector supplies services in the energy sector.

The Hon. Dr PETER PHELPS: And telecommunications.

Mr BETTS: Telecommunications, absolutely.

The Hon. Dr PETER PHELPS: Which we were also told was a natural monopoly.

Mr BETTS: I mentioned that I am from Victoria. Electricity networks were privatised in Victoria in the 1990s. As our report explains, prices have risen much less quickly in Victoria and South Australia than they have in New South Wales in recent times. As I say, our main focus is on how the proceeds can best be used to maximum economic benefit for the community.

The Hon. DAVID CLARKE: There is a big backlog of infrastructure required, is there not?

Mr BETTS: There is a backlog of infrastructure, certainly. But, more than that, there is a growing population that will be good for the economy of New South Wales provided the infrastructure is in place to provide the schools, the hospitals and the transport infrastructure necessary to support that growing population. Otherwise we see growing class sizes, growing congestion and growing hospital waiting lists, and none of us wants that.

The Hon. DAVID CLARKE: This is a problem that has been developing over some years, has it not?

Mr BETTS: The infrastructure challenge that we face now are not challenges that have arisen in the last four years; they have arisen over decades. But now there is an opportunity with significant investment already going into projects like the North West Rail Link, CBD light rail, Northern Beaches Hospital and redevelopments at Barangaroo, Darling Harbour and so on to build on that very significant level of infrastructure investment which is underway and make an historic impact in terms of addressing that backlog and meeting the future challenges of population growth.

The Hon. SCOTT FARLOW: We have spent a lot of time focused on Sydney and its urban problems. What about the regional impact of this package? What is there in this $20 billion package for our regions?

Mr BETTS: That is a very good question. We do tend to focus on Sydney but within our recommendations is broadly $6 billion worth of recommended investment in regional New South Wales. A major part of that is around investment in road links in regional New South Wales. That includes programmatic investment, for instance, to improve the capacity of major regional arterials like the Newell Highway, the Great Western Highway, the New England Highway and the Golden Highway to improve north-south and east-west connections. That is so that our primary producers, whether they are in mining or in agriculture, can get their goods efficiently to market. Sometimes it is about investment in major highways—the Pacific Highway, the Princes Highway—and it is about meeting the needs of population growth in regional areas, whether that is in the Hunter, Central Coast, North Coast or the Illawarra. Sometimes it is about local investments in the last mile to enable trucks to get to the grain silos or to the dairy production facilities.

In other cases it is about bridge strengthening or investment in our regional rail freight network, where we have recommended $400 million of investment for passing loops and other localised interventions. Transport is an important of part of what we are recommending. We also suggest that money be allocated to regional environmental and tourism infrastructure. I am referring to things like regional airports to boost the tourism economy on the north or south coasts. We are doing a lot of work at the movement with NSW Trade and Investment to identify priorities in that sector. One of the aspects of the document of which I am most proud is the work that Ms Jones led on water security. It might be worth focusing on that.

Ms JONES: One billion dollars' worth of the recommendations relate to regional water supply and security. We looked at the State's catchments post the signing of the Murray-Darling Basin Agreement and determined which should be prioritised; that is, we determined the areas most at risk of having water security issues in the coming decade. We identified four priority catchments. Broken Hill and Cobar were identified as towns that required investment. In Broken Hill it involves a permanent water supply. It currently has an emergency situation. In Cobar the recommendation is to make efficient use of water by putting the channel that now supplies the town into a pipe. We also identified that 71 regional towns still do not have water supply or wastewater services that meet standards. Those towns are also prioritised in the report. The report gives a way forward to identify priority investments for regional water security for New South Wales. In that case we looked at the potential environmental impact of climate change.

The Hon. ADAM SEARLE: Can you identify which of the projects listed in your document are investment decisions?

Mr BETTS: More than $60 billion worth of infrastructure is already programmed into the forward estimate period—projects which will be delivered in the next four years. Those projects are investment ready. Most projects in our report, if not all of them, merit further work. We have said that that work can take place before the earliest date on which the proceeds from the poles and wires will hit the Government's books. In some cases work has been done since our report was published, which is more than six months ago. For instance, work has been done around individual investments in the road system. However, when we respond to the question on notice you asked you will be able to see the investments that are ready to go now and those that require more work. In some cases that may be a couple of months more work but in others it may be as much as 12 months.

The Hon. ADAM SEARLE: When you provide that feedback, please identify the horizons, to the extent that you know them.

Mr BETTS: Certainly. We make these comments about business cases because in the past New South Wales did not always take investment decisions on the back of rigorous business cases. One of the purposes of establishing Infrastructure NSW was to provide a bit of assurance to the community that government was not going to spend large amounts of taxpayers' funds without an upfront analysis having been done. On the one hand, you could criticise our report on the basis that it requires that more work be done, and it makes great play of the fact that more work needs to be done. On the other hand, that is far preferable to a scenario in which projects are plucked out of the air and taxpayers' dollars committed without appropriate due diligence up front.

The Hon. ADAM SEARLE: I am simply trying to understand where things are up to. The Government campaigned not only on the notion of this particular privatisation proposal but also on the matters listed in the document. From what you have said, I think most of the matters listed here are not currently investment decision ready.

Mr BETTS: Page 154 of our document sets out all the investment recommendations to be made in the right-hand column and it shows the status of those projects. We have been very explicit about where those projects are at. I also make it very clear that we would not be recommending them unless we were confident that there was a strong underlying business case for them. It is just that a business case needs to be developed in detail so that—

The Hon. ADAM SEARLE: It simply needs to be done.

Mr BETTS: Exactly, and if possible within six months from when we produced our report.

The Hon. ADAM SEARLE: In fact, it was less. You were allocated it in July.

Mr BETTS: I think the initial commission was in June and we reported in November.

The Hon. ADAM SEARLE: I thought the letter from the Premier was dated 31 July.

Mr BETTS: I think the Premier had announced it before that, so we knew that this was coming.

The Hon. ADAM SEARLE: Who did the cost-benefit analysis for each project?

Mr BETTS: Many projects were subject to cost-benefit analyses and are referred to in our document. They would have been undertaken by agencies that engaged their own specialist advisers.

The Hon. ADAM SEARLE: So you did not do them?

Mr BETTS: We did not do the cost-benefit analysis; we reviewed it and critically analysed the assumptions underlying it. For instance, for the major rail projects, we looked at patronage assumptions, questioned whether they were consistently applied, whether they were realistic, what underlay them in terms of population growth and the assumptions about jobs growth and capacity to move people out of peak periods to off-peak periods, for example, through pricing differentials. Our advice reflects the critical analysis that we applied.

The Hon. ADAM SEARLE: So the cost-benefit analyses were done by agencies or their contractors, not by you?

Ms JONES: We did independent benchmarking of the estimated costs. As you mentioned, different projects are at different stages of development. At an earlier stage of development there are feasibility level costings and concept level costings. As a project develops there are more defined costings. A final business case is based on the best estimate at that point in time. There is a report on our website indicating some of the benchmarking we did for some of the major projects we recommended.

The Hon. ADAM SEARLE: Are any of the projects in your document self-funding, or do they all require ongoing funding from the State budget in terms of maintenance and operating expenses?

Mr BETTS: Public transport projects will require ongoing support from the taxpayers. That is standard for public transport projects around the world. In other cases, particularly in the case of the toll roads we identified, more work needs to be done before we can say with confidence that they will be self-funding. However, initial analysis of traffic flows in the western harbour tunnel, for example, suggests that there is a reasonable prospect that it will be self-financing, but more work needs to be done.

Ms JONES: The table at 12.2 in the document gives an indicative funding mix. We identify approximately $6.3 billion that may be user-funded.

The Hon. ADAM SEARLE: Where is that?

Mr BETTS: At page 159.

Dr JOHN KAYE: You say that one of the key drivers for selling the lease of the electricity industry is matching population growth. It is also likely that population growth will continue. What is next; what will we do after this? This might buy us five or 10 years of infrastructure. What will we sell next? If we do not rely on a sustainable source of revenue, what will we sell next?

Mr BETTS: I do not think Infrastructure NSW is suggesting that the Government should rely on certain sources of revenue in the future. In fact, as I said, a great deal of work has been done in New South Wales to establish a sound fiscal basis for investment decisions. However, where you have the opportunity to recycle capital into worthwhile infrastructure, that seems to be a sensible thing to do provided that the projects you are investing in have a strong return to the economy. It does not mean that you are forever beholden to selling assets. It simply means you have the opportunity to recycle assets now and get the benefit earlier than you otherwise would.

Dr JOHN KAYE: If the only way to raise $20 billion is to sell off the last large outdoor economic infrastructure owned by the New South Wales people, surely you must be concerned about what happens once it is sold and the population continues to grow. There needs to be another source. Surely it would be more sustainable to find tax revenue that supported the construction of infrastructure.

The Hon. Dr PETER PHELPS: Point of order: The witnesses have previously indicated that the income side of the ledger is not within their remit. This relates entirely to the income side of the ledger. I ask that the honourable member move on to something that is within their remit.

The Hon. ADAM SEARLE: To the point of order: First, the witness can handle himself; he is an experienced witness. Secondly, he has already expressed views about the proposed transaction, which is what we are all here to analyse. The witness can answer in any way he chooses.

CHAIR: The honourable member asked the witness a question about a hypothetical means of raising funds. That is not Infrastructure NSW's responsibility.

Dr JOHN KAYE: I am asking the representatives of Infrastructure NSW for their view about what will happen next if the proposal goes ahead and more infrastructure is built but there is more population growth. The witness said that this is about matching population growth. What happens next?

Mr BETTS: That is a matter for the Government of the day to determine. This Government is committed to the poles and wires transaction and to recycling that capital into economically beneficial infrastructure.

Dr JOHN KAYE: So in your view it is nothing more than a government's commitment.

Ms JONES: No, Infrastructure NSW needs to advise about productivity and economic growth and priorities for investment that contributes to economic benefit and growth.

Mr BETTS: Which is what this report does.

Ms JONES: That is what we have tested with the Deloitte Access Economics report—analysing the investments recommended. That report says that these investments would add to the New South Wales economy significantly over the period above any investment currently planned. Our requirement is to test that these investments are economically accretive and not negative.

CHAIR: In the Premier's statement about the infrastructure projects he made distinctions and said that $7 billion was reserved for the Sydney rapid transit to fully fund a second harbour rail crossing. The next item includes $1.1 billion reserved to invest in the WestConnex northern and southern extension and the western harbour tunnel. Obviously, $1.1 billion will not build anything, relatively speaking. Where does the balance come from—it could be another $10 billion?

Mr BETTS: The assumption would be that those connections would be tolled. Therefore, the balance would come from toll revenue. It is standard practice in Sydney that new motorways in the urban area are tolled. The table on page 159 of our document refers to the indicative funding mix for each of the major projects. We are looking at WestConnex northern and southern extensions and the western harbour tunnel being substantially funded from user charges and road tolls. The Government reserved the balance of $1.1 billion to add to the $18.9 billion to get to $20 billion as a potential government equity contribution to those projects in the event that it found in due course that toll revenue did not fully cover the costs of those projects.

CHAIR: Mr Greiner was chairman of Infrastructure NSW for two years. Did he play a major role in the development of these projects?

Mr BETTS: Mr Greiner was chair until early July 2013. As Ms Jones explained, the advice we presented to the Government in November last year built on a document entitled "First Things First", which was prepared by Infrastructure NSW before my time but when Nick Greiner was chair. There is a clear line back from the work that we presented to the Government late last year and the work that was done under Nick Greiner's chairmanship.

CHAIR: Did his resignation have any detrimental effect on what you are doing?

Mr BETTS: Nick Greiner has been a fantastic contributor to public life in New South Wales for a long time. However, I have a very good chairman in Graham Bradley, with whom I work very closely. The board remains strong and very committed to infrastructure in New South Wales.

The Hon. CATHERINE CUSACK: There seems to be an inference from people who do not fully understand the cost and complexity of capital planning that perhaps the Government is not doing its homework on this outlay. Can you enlighten the Committee on the life of a project and why you would not spend so much money on planning if you did not know whether you had secured funding?

Mr BETTS: It typically takes between 18 months and two years for a project to move from its initial conception, which might be as part of a broad strategic planning document, through what we call a preliminary or strategic business case and then to a final business case. You can spend tens and in some cases hundreds of millions of dollars doing the preparatory work necessary to undertake a multi-billion dollar investment with strong degrees of confidence. You need to do the up-front work in terms of understanding what it is you are buying, making sure that the project is properly costed and the risks associated with the delivery of that project are properly understood. That takes time and it take resources to do that. You then need to undertake procurement processes, which in themselves need to be staged processes with expressions of interest, requests for tenders and so on, and you need to make sure that your planning approvals are secured before projects reach financial close and before the Government makes an irrevocable commitment to them.

All of that takes time. But the more up-front analysis you do, the more you can understand what it is you are buying and paying for and how you are going to deliver it, the less the risk of costly blowouts or delays later on during the delivery stage of the project. I think that is one of the key lessons that New South Wales has learned in the last decade or more. One of the key areas where Infrastructure NSW can add value is to hold agencies to account to make sure they do that up-front work.

The Hon. CATHERINE CUSACK: Have you noticed an improvement in the culture during the period Infrastructure NSW has been place?

Mr BETTS: Absolutely, and that continues all the time. But business cases are getting more and more rigorous all the time and our document is a further call to arms in terms of making sure that we spend every dollar of taxpayers money prudently and on the basis of sound, up-front analysis.

The Hon. CATHERINE CUSACK: So these projects are at an appropriate phase, given the stage we are up to, in terms of identifying funding?

Mr BETTS: Correct.

CHAIR: Thank you for your evidence and all the hard work you have been doing over a long period. I know you would like to see all these projects come to a reality in the future.

The Hon. Dr PETER PHELPS: In a prompt time period.

CHAIR: With any questions on notice, you have three days to answer them from the time you get the transcript.

(The witnesses withdrew)

(Short adjournment)

JARROD KEY, Head of Power, Utilities and Infrastructure, UBS Australasia,

CHRISTOPHER JAMES WILLIAMS, Head of Research and Co-head of Equities, UBS Australasia, and

DAVID ANDREW LEITCH, Utilities and Building Materials Analyst, UBS Australasia, affirmed and examined:

GUY STUART FOWLER, Chairman, UBS Australasia,

MATTHEW GROUNDS, Chief Executive Officer and Country Head, UBS Australasia, and

ANDREW LILLEY, Fixed Income Analyst, UBS Australasia, sworn and examined:

CHAIR: Mr Grounds, do you wish to make a brief statement on behalf of the representatives?

Mr GROUNDS: Yes, thank you. Chairman and members of the Committee, as I mentioned, my name is Matthew Grounds and I am the chief executive officer and country head of UBS in Australasia. I am joined by a number of my colleagues today. On my left are colleagues from UBS's research business and UBS Securities and, on my right, from our investment banking business, UBS AG. Guy and Jarrod, on my right, lead the investment banking team advising the Government. I note that UBS's advisory work for the New South Wales Government is Cabinet-in-confidence and commercial-in-confidence. UBS's research publishing arm is represented today by Mr Chris Williams, who heads UBS's research team, and two of our analysts, Mr David Leitch and Andrew Lilley. The research team publishes its own views, which are not those of our advisory team and are formed without the benefit of the information that our advisory team has. Chris Williams will comment on the research that UBS Securities published on 17 March 2015.

Mr WILLIAMS: Mr Chair, members of the Committee, I am the head of research for UBS Securities. In our research business we publish something in the order of 5,000 pieces of research each year. This research is relied upon by many hundreds of institutional investors in Australia and around the world. It is relied upon when they are making significant investment decisions. That is why our research must be objective, accurate and reasonably based. My analysts and I do not have access to confidential or non-public information and there is a structural separation from UBS AG and its advisory activities. Our research is independent. It is not influenced by clients or other parts of UBS.

On 17 March this year my colleagues Mr Leitch and Mr Lilley issued a report titled "Utilities sector privatisation finance". Under that headline was a subheading "Bad for the budget, good for the state". Despite this heading, the report in fact did not demonstrate that the long-term lease would be bad for the budget. Instead, it set out a number of benefits that would accrue to the State from the long-term lease and new infrastructure. But, in fact, the question as to their combined long-term budgetary impact was left unresolved. In short, the research report had a headline which, in isolation, could mislead readers. I read this report shortly after it was released and thought the subheading was potentially misleading. After discussions with Mr Leitch and Mr Lilley, we agreed to publish an addendum. Corrections are always embarrassing. However, UBS Securities cannot and will not leave potentially misleading research in the market. In short, we had no choice but to issue an addendum.

These events attracted significant media attention and there has been some discussion that the New South Wales Government caused the addendum to be published. That is not correct. Mr Leitch, Mr Lilley and I are fiercely independent and we made the decision to publish the addendum with no influence from anyone else. Indeed, we were not aware of any communication between the Government and UBS. We are here to answer any further questions the Committee may have in relation to this research.

Mr GROUNDS: Thanks, Chris. Finally, a couple of comments, Chairman. UBS appreciates the opportunity to be here today to help clarify matters hopefully for everyone. UBS has a long history of operating in Australia and we welcome the opportunity to answer your questions.

The Hon. ADAM SEARLE: This morning the Premier revealed that his office directly contacted you, Mr Grounds, and also Mr Fowler. Will each of you tell us who contacted you and when, and what was said?

Mr GROUNDS: Sure. That is right. The people at UBS who had contact with the Premier's department on that day was Guy Fowler and myself. Guy had the first interactions with the Premier's department, so I will ask him to go first.

Mr FOWLER: On the 17th the research was published late morning. I went to a board meeting. At about 1.30 I had returned to the office and had the ability to read the report in its entirety. At about 1.30, Mr Matt Crocker from the Premier's department called me. Having read the research, I apologised for it. We then had a discussion about the fact that it clearly did not include the productivity benefits from reinvestment of the $20 billion. This is a topic that I was very au fait with. I had been working on and reading that analysis for some time, so there was no news there. It was a two-way discussion. I had also been made aware by that time that the research team had formed a view that they were going to make an amendment to the report, and I made him aware of that. We then had a discussion around the level of media inquiry that had come from it.

It was important to us that we tried to make it as clear as possible that the views that may be expressed by Research are not views that come from the advisory part of the business—Jarrod and myself—who are the ones providing the advice to Government. That seems to have been misunderstood. That was the content of that conversation. He then rang about an hour and a half later, closer to quarter to three. We had a further discussion around a media engagement. By that stage we had formed the view and taken a decision that we were going to be proactive and meet with the *Australian Financial Review* [AFR]. I told him that. I think Research had formed the decision that they were going to have some engagement with the *Australian*, but I was not aware of that, so we did not discuss that in much length. That was the substance of that discussion. I received a request some time later as to the names of the journalists at the AFR that we were going to be engaging with, and I responded to that.

The Hon. ADAM SEARLE: A request from who?

Mr FOWLER: From Matt—Mr Crocker. That was the entirety of those discussions. Just reiterating, to be very clear—very clear—at no stage in those discussions did he ask or suggest that we amend the report.

The Hon. ADAM SEARLE: What exactly did he raise with you, just the omissions, as he saw it?

Mr FOWLER: I have taken you through the conversation. We had a two-way discussion about the fact that it clearly did not highlight the economic impact of the spending. I told him that I understood that Research was already going down the path of amending the report, because I had been made aware of that. We talked about who in the media had contacted us, as far as I was aware. We had a subsequent discussion about the fact that we had invited some journalists in from the AFR to discuss the banking position, and that was the substance of the discussion.

The Hon. ADAM SEARLE: You are on the investment side?

Mr FOWLER: Correct.

The Hon. ADAM SEARLE: His queries were about some of the research?

Mr FOWLER: No, his queries were, as I relayed, first, to make sure I was aware of it. Secondly, I made him aware of what we were going to do in respect of the discussion with the media to try to make it clear that the views that had been put out by Research, if you like, were not the views of the advisory part of the business, who had been acting as the adviser to the Government. Unfortunately, it is something that we have been spectacularly unsuccessful in getting across.

The Hon. ADAM SEARLE: You said that at the time of your first conversation with, Mr Crocker, you were already aware that Research had decided to put out the addendum?

Mr FOWLER: That is correct.

The Hon. ADAM SEARLE: At what point in time and how did you become aware of that?

Mr FOWLER: I became aware of that at about 20 past one and I became aware of that from Mr Grounds.

The Hon. ADAM SEARLE: Just before you spoke to Mr Crocker?

Mr FOWLER: Yes.

The Hon. ADAM SEARLE: So the two events were almost simultaneous?

Mr FOWLER: No, they were not simultaneous. One was quite clearly before.

The Hon. ADAM SEARLE: Mr Grounds, who contacted you and when?

Mr GROUNDS: As I mentioned, my communications with the Premier department—sorry, I did not mention this, but my communications with the Premier's department were with Mr Bay Warburton. They happened later in the day, around three o'clock, or certainly when the decision had been made to amend the report. In fact, when I spoke to Bay, the amended report had been issued on our platform. The communications had centred on Bay flagging the report and he wanted to know if I was aware of the report. I told him that I was aware of the report. I apologised, to be frank, for the mistake that Research had made because by then it was very clear that UBS had made a mistake in respect of the research.

We talked about the media. Again, we both felt the importance of distinguishing the views of the research department and those of, if you like, the Government's expert advisers. Again, as Guy has mentioned, we were concerned about the fact, and even hearing this morning's discussion, it appears that there is confusion, and the Government's expert advisers, who sit here on the right, have access to confidential information from their clients, including the Government, and they are separate to our research. We did not want it portrayed that Research's views were in any way, shape or form anything to do with the views of the investment banking team. I also believe that I told Mr Warburton that the report had been issued or was about to be released.

The Hon. ADAM SEARLE: The second one?

Mr GROUNDS: Yes.

The Hon. ADAM SEARLE: Did either of you gentlemen have discussions with Mr Williams, Mr Leitch or Mr Lilley about what was going to be in the amended report?

Mr GROUNDS: I might ask Chris to answer that.

Mr WILLIAMS: Mr Searle, as I mentioned, I read the report almost immediately after its release and quickly engaged with Mr Leitch and Mr Lilley. It is clear that, in isolation, the headline did not reflect the substance of the report. I think that is self-evident. I raised the issue with Mr Grounds at approximately midday to alert him to this issue. Then we had a further conversation at approximately 1.00 p.m. where I advised him that we were likely to issue an addendum report.

The Hon. ADAM SEARLE: Can I just take you through a couple of things? You say that the headline did not reflect the substance of the report. The heading, of course is "Bad for the budget, good for the state", but turning to page two it says, quite clearly, "We believe the State's decision to divest utility assets, which pay a dividend to the State, and replace them with mostly transport infrastructure assets, which do not pay dividends, would worsen the fiscal position of the State Government over the medium term." It says that quite clearly in a number of ways and in a number of places. The headline is entirely reflective of the document.

Mr WILLIAMS: I disagree with your interpretation. I will let Mr Leitch and Mr Lilley explain the substance of the analysis to you and what they did and did not factor into that analysis, but I disagree with you when you read the report in its entirety. I think that actually highlights the very issue and why we felt it necessary to issue an addendum: In isolation, that headline can be misinterpreted and therefore can be potentially misleading. But perhaps if I get Mr Leitch and Mr Lilley to explain the substance and the intent of the research?

The Hon. ADAM SEARLE: Sure, but just before you do, it is one thing to say the report is incomplete or does not factor some things in, but there is just no other way of reading it.

Mr WILLIAMS: I believe—and I paraphrased but there is a reference in the report that that would only be true unless the revenues that are generated, and the benefits therefore to the State that accrued, were not greater than the lost income. I think—and that is the reference that I am referring to, but perhaps Mr Leitch—

The Hon. ADAM SEARLE: But nevertheless the headline actually reflects this document.

Mr WILLIAMS: I do not agree with your interpretation, but that was my judgement to make on the day.

The Hon. ADAM SEARLE: Okay.

Mr WILLIAMS: Perhaps Mr Leitch you would like to—

The Hon. ADAM SEARLE: Before we get to Mr Leitch, though: Mr Williams, did you speak to Mr Grounds or anybody else before you formed that judgement?

Mr WILLIAMS: As I mentioned, I spoke to both Mr Leitch and Mr Lilley almost immediately after reviewing the document.

The Hon. ADAM SEARLE: Okay.

Mr WILLIAMS: That is correct.

The Hon. ADAM SEARLE: But did you speak to Mr Grounds or Mr Fowler before you did that?

Mr WILLIAMS: Yes. I mentioned—I referenced two conversations that I had with Mr Grounds. I think the fact that I immediately raised concerns with the publishing analysts and authors reflects my concerns that emerged pretty much straightaway, having read the research. It was clear to me from media inquiries that in fact the substance of the report was not being fully appreciated; that it was being disconnected from the headline of the report. That reaffirmed my view that it was potentially being misinterpreted and, as I referenced then, I advised Mr Grounds at approximately 1.00 p.m. that I felt it necessary to correct that. If I go back to my opening statement, we just do not have a choice. When we have a piece of research that is factually wrong or potentially misleading, we cannot leave that with our investor base. We have an obligation to correct that, and that is a decision we took.

CHAIR: We might move over to Mr Leitch. You wanted him to make a comment. Right?

Mr WILLIAMS: Thank you. Thank you, Mr Chair.

Mr LEITCH: Thank you, Mr Chair. Chris came to see me very shortly after the report had been released and he was clearly concerned about the headline at that point. I straightaway realised that the bulk of the report, which deals with the benefits of the privatisation program for the State—that is, the $20 billion that is going to be spent on infrastructure, including the new Sydney rail tunnel and the country roads program together with the fact that the networks were likely to be run far better in private hands and it is an essential point of the research that the total proceeds were likely to be much larger than I believe the market understood—all of those points were being missed by a headline that was unfortunate.

Furthermore, the headline: We are used in financial markets to people who read beyond headlines and go on to read the full document and look at all the footnotes and so on and so forth. This document, you know, with the benefit of hindsight, the headline certainly did not convey the view that, taken in isolation, the actual sale of the networks themselves would almost certainly or would definitely be positive for the budget in and of itself. Secondly, and the point that Chris was concerned about, it did not take into account all the productivity benefits, which I think the Premier alluded to this morning, that would subsequently flow to the State from this infrastructure program.

I guess I have been looking at this for so long that I just took it for granted that people would understand that there would be a lot of infrastructure benefits, but we certainly did not do the work in the research to identify the full effect of those. To that extent I completely agree with Chris that the headline—people were just reading the first four words of the headline and stopping. They just were not getting any further, so that had to be corrected.

Dr JOHN KAYE: Just to pick up on Mr Searle's line of questioning, so far we have spoken about a headline and a change in a headline, but there were other changes to the report. Did they happen at the same time as the change to the headline?

Mr LEITCH: Yes.

Dr JOHN KAYE: Were those changes that you, Mr Leitch, decided you wanted to make? Or why did you decide to make those changes?

Mr LEITCH: Chris and I had a discussion about it and he suggested that an addended report be prepared, and I fell in with that suggestion.

Dr JOHN KAYE: Which included those other suggestions, those other changes.

Mr LEITCH: Well, he wanted the headline changed and I wanted to edit the report to de-emphasise some of the negative parts of it because I was particularly concerned that the original reason for writing the report was, once again, to emphasise all the benefits to the State of the entire privatisation process.

Dr JOHN KAYE: Mr Leitch, you are telling this Committee that it was your decision, and your decision alone—

Mr LEITCH: No, I am sorry: Excuse me.

Dr JOHN KAYE: Sorry. Well, can you make it clear? Whose decision was it? On whose advice did you act? On whose decision did you act with the other changes?

Mr LEITCH: Chris suggested that we write an addended version of the report, and Andrew Lilley and I went away and wrote behind the research barrier an addended version of the report.

Dr JOHN KAYE: In Mr Williams' suggestions to you, did he include pointers to the other changes to the report?

Mr LEITCH: Not to the best of my recollection, no. He did not, particularly.

Dr JOHN KAYE: So it is totally off your own bat that you made those other changes.

Mr LEITCH: Well, Andrew and me together, yes.

Dr JOHN KAYE: So the two of you, Mr Lilley and Mr Leitch, you made the decision to make those other changes. You had a conversation with Mr Williams where the only thing discussed was the headline—

Mr LEITCH: Right.

Dr JOHN KAYE: —and then you went away and you made the other changes.

Mr LILLEY: Dr Kaye, if I might interject?

Dr JOHN KAYE: Please, Mr Lilley.

Mr LILLEY: I recall it was actually me who raised with Chris; when we initially prepared a draft version of the report I asked him, "Well, considering we have now identified these productivity benefits more clearly, though, the analysis and the figures certainly have not included them. Is it, for completeness, better that we remove the graph?", and he agreed.

Dr JOHN KAYE: Mr Lilley, which day was that discussion happening on—the same day, 17 March?

Mr LILLEY: Yes. It was happening on 17 March.

Dr JOHN KAYE: What time on 17 March did that discussion happen?

Mr LILLEY: To be honest, I cannot recall the exact time of the discussion.

Dr JOHN KAYE: Before your discussion with Mr Leitch, Mr Williams and yourself, or was that a separate discussion?

Mr LILLEY: No. As I said, it was after we prepared a draft of the addendum, which we then took back to Chris.

Dr JOHN KAYE: And that draft of the addendum, did that include the deletion of the graph and the other materials?

Mr LILLEY: No. As I mentioned, when I brought the draft of the revised report to Chris I suggested to him that I was not sure whether it would be better to remove the analysis and the chart. The reason was I tried to make it clear in the report the things that we deliberately did not account for because it would be impossible to try to account for them. I asked Chris—I had formed the view, though, it was probably better, given the fact that if not everybody was going to read the report, well perhaps people might read the chart without looking at the assumptions as well. So I brought it to Chris and asked did he agree with that judgement of mine and he did agree.

Dr JOHN KAYE: At what time? I am sorry, I am still confused. Was that the same conversation you had with Mr Leitch and Mr Williams, or a separate conversation?

Mr LILLEY: That was a separate conversation with Mr Leitch and Mr Williams.

Dr JOHN KAYE: And that was before or after the three-way conversation?

Mr LILLEY: That was after the first three-way conversation. We had two conversations about the nature of the report.

Dr JOHN KAYE: You had one conversation where it was agreed that the headline was no good and needed to be amended.

Mr LEITCH: We had a conversation where we agreed to issue an addended report. Andrew and I went away and prepared a version of the amended report and then we brought it back to run through the changes with Chris, at which point—and this took place in a relatively brief period of time, quite frankly. I think there was probably no more than 30 minutes between the first conversation and the second conversation. At that point when we discussed it, Andrew suggested removing the graphs to Chris, and Chris agreed.

Dr JOHN KAYE: And the only people you spoke about this matter to was Mr Williams, nobody else; you did not speak to Mr Grounds, or Mr Fowler, or Mr Key, or anybody who worked on that side of the equation.

Mr WILLIAMS: No. Mr Fowler was present in the second conversation, more by coincidence. He had come to my office to get me to go to another meeting. But certainly in the drafting of the research and the review that I undertook and the discussion about inclusion of the chart or otherwise, that was a conversation between Mr Leitch, Mr Lilley and I.

Dr JOHN KAYE: And Mr Fowler was not present at that conversation?

Mr WILLIAMS: No. He was not involved in that conversation.

Dr JOHN KAYE: He was involved in the first conversation.

Mr WILLIAMS: No, no.

The Hon. SCOTT FARLOW: "Who's on first, Watt's on second."

Mr WILLIAMS: Dr Kaye, let me—I do not know that it is relevant. There was a conversation about redrafting the research and a form of that redrafted research.

Dr JOHN KAYE: That did not involve Mr Fowler—or it did?

Mr WILLIAMS: No, it did not. Mr Leitch and Mr Lilley went to redraft the research. They came back to my office probably about an hour later with the redrafted research for me to review.

Dr JOHN KAYE: So, Mr Williams, you sit right at centre of what is called the Chinese wall, then.

Mr WILLIAMS: No. I sit on the public side of what we call our information barrier.

Dr JOHN KAYE: You had conversations with Mr Grounds and Mr Fowler that day.

Mr WILLIAMS: That is correct, so just to clarify my role—or perhaps I will come back to it after I clarify the conversations that we had around the research?

Dr JOHN KAYE: Please.

Mr WILLIAMS: The first conversation was discussing the form and substance of an amended report. Mr Leitch and Mr Lilley went away and drafted that amended research. When they brought that back to me, not a single word in that report was changed. The only change that occurred, as Mr Lilley identified, was the removal of a graph and the associated text. That was Mr Lilley's suggestion. I agreed with his suggestion and the report was submitted and republished. So separately to that, as I described previously, I had two conversations with Mr Grounds during the course of the day. The first was at approximately midday when I alerted him to this issue and the second conversation was approximately 1.00 p.m. when I made it clear to Mr Grounds that we would be issuing a redrafted research piece.

Dr JOHN KAYE: When did you become aware that people from the Premier's office had called both Mr Fowler and Mr Grounds?

Mr WILLIAMS: As I referenced in my opening statement, we were not aware of any interaction between the Government and UBS. The first I became aware of that was when I read about it in the media.

Dr JOHN KAYE: The following day?

Mr WILLIAMS: I cannot recall whether it was later that night or the following day, but it was well after the events that are relevant.

Dr JOHN KAYE: Mr Leitch, you are a fan of John Donne, I understand.

Mr LEITCH: If he is the source of that great quote, "No man is an island" unto himself, yes, I am a fan. Yes.

Dr JOHN KAYE: Okay.

Mr LEITCH: I have not read any of his poetry for quite a long time.

The Hon. Dr PETER PHELPS: It is pronounced "done".

Dr JOHN KAYE: I am sorry?

The Hon. SCOTT FARLOW: It is pronounced John "done".

CHAIR: It is Mr Borsak's question time. Is he happy for you to take his place?

Dr JOHN KAYE: I believe so.

The Hon. ROBERT BORSAK: I have a couple of questions.

Dr JOHN KAYE: I will just finish this one question. What did you mean when you said "no man is an island"? What exactly was the context?

Mr LEITCH: Basically, what—

Dr JOHN KAYE: Were you saying that there was an undercurrent?

Mr LEITCH: No, certainly not. I think what I said before was that the Chinese walls in our shop work fairly well, but what I actually meant by that quote: I think, basically, when you write research you are aware that everyone is going to read it—or it may be read by anyone. Actually, if everyone would read most of the time, that would be a good thing, but in this case—

Dr JOHN KAYE: I know that feeling, having been a researcher.

Mr LEITCH: Yes—but it could be read by anyone, including people who would not necessarily like what they were reading. That is what it means. Research is not produced in a vacuum.

The Hon. ROBERT BORSAK: Just for the sake of clarity for me, at whose behest was the report prepared in the first place?

Mr LEITCH: It was my idea.

The Hon. ROBERT BORSAK: It was your idea.

Mr LEITCH: Can I just expand on that? I have had an interest in electricity privatisation and been an advocate for it since at least the time that Kerry Chikarovski was Opposition leader here, which is some time ago.

The Hon. ROBERT BORSAK: Who would then normally have the last say on what was contained in your reports?

Mr LEITCH: Well, normally the way—

The Hon. ROBERT BORSAK: Should it be the Government, or should it be—

Mr LEITCH: Oh, no.

The Hon. ROBERT BORSAK: —your head of research or your chairman or your chief executive?

Mr LEITCH: Actually, we have research independence, but I think it is probably better if Chris explains how the information barriers and research—the policies—

The Hon. ROBERT BORSAK: No, I am asking you.

Mr LEITCH: I am sorry, what is the question again, please?

The Hon. ROBERT BORSAK: The question is: Who is responsible for that report to be issued?

Mr LEITCH: I sign a report saying that I am the responsible author for the report, or Andrew may sign it. One person generally signs it and sometimes two, and then the research is reviewed by a supervisory analyst and then it goes up on the research platform. Occasionally the research may be reviewed by other people before it is published, but in this case it was not.

The Hon. ROBERT BORSAK: So in this case it was not a case of publish and be damned; it was a case of publish and cop it, and then change it. Is that what you are saying?

Mr LEITCH: The research was published in the normal course of the way that I have always published research. I mean, UBS publishes about 5,000 pieces a year. I think I publish about 5 per cent of that.

The Hon. ROBERT BORSAK: About 5 per cent of it. Early on in the evidence I think someone said that this report went out as a draft. Is that right?

Mr LEITCH: No, the report was not a draft. A draft was produced of the addendum version of the report after the first report had been published and distributed.

The Hon. ROBERT BORSAK: Explain to me what is an addendum version?

Mr LEITCH: Essentially an addendum version, under the way the publishing system at UBS works, is the addendum version replaces the original report that is issued.

The Hon. ROBERT BORSAK: The addendum version replaces the initial report. When and how would you issue an addendum report? I assume you do not issue one for your 5,000 reports?

Mr WILLIAMS: On occasion we will reissue research for factual inaccuracy, for error or in this case for comment or headline that could be misconstrued. It does not happen very often but it does happen on occasion. Sometimes that information or that error is brought to our attention by the sales people within the business.

The Hon. ROBERT BORSAK: Mr Williams, you are the head of research. Did you not qualitatively evaluate this report before it was published?

Mr WILLIAMS: No, I did not. I read it for the first time after it was published and distributed.

The Hon. ROBERT BORSAK: Is that a good thing for the firm?

Mr WILLIAMS: I do review dozens of reports on a monthly basis. With 5,000 research reports produced in a year I do not review all of them before they are published, no.

The Hon. ROBERT BORSAK: Is it normal for the business interests of UBS Australasia to somehow or other manage to find their way over your security wall or division of duties wall, or whatever you call it?

Mr WILLIAMS: I am not going to comment on that but I would say—

The Hon. ROBERT BORSAK: I think you should comment on it. That is what you are here trying to explain.

Mr WILLIAMS: There is no concern on my part that there was any influence on the authors of the report or on me in reviewing that report, none whatsoever.

The Hon. ROBERT BORSAK: The report was published without review by you. No one on this side of the firm spoke to you. How did you find out about it? Did you read it in the paper?

Mr WILLIAMS: No, it appeared on my email, as it appeared on all of our institutional investors' clients' email at the same time at approximately 11.15 a.m.

The Hon. ROBERT BORSAK: Then you read the report subsequent to that?

Mr WILLIAMS: That is correct.

The Hon. ROBERT BORSAK: That is when you formed the view that it was not reflective of all the information and data that it should have had in it?

Mr WILLIAMS: That is correct.

The Hon. ROBERT BORSAK: Is it right that a substantial potential benefit of $300 billion to the State should have just somehow or other been missed—gone missing in action in relation to the corporate modelling or State modelling, economic modelling?

Mr WILLIAMS: It is certainly regrettable when we reissue any piece of research but I think the authors made an attempt to point out that they were excluding that information. The reference I made in my opening remarks is that our research has to be objectively reasonable. By that I mean, if you draw conclusions, if you make inferences, you have to have a reasonable basis for doing that. In my view the headline was inconsistent with the analysis and the report and, therefore, it did not have a reasonable basis for being drawn.

The Hon. ROBERT BORSAK: What was the headline on the redrafted version or the addendum version, as you call it?

Mr LEITCH: Good for the State.

The Hon. ROBERT BORSAK: Good for the State?

Mr LEITCH: Yes.

The Hon. ROBERT BORSAK: We went from a situation where it Good for the State, Bad for the Budget. Bad for the Budget disappeared and now it is Good for the State?

Mr LEITCH: Correct.

The Hon. ROBERT BORSAK: Ticks right across the board.

Mr LEITCH: Absolutely and it gets the content of the report across much better. I am very happy with the rephrased headline.

CHAIR: You deleted the words "Bad for the Budget"?

Mr LEITCH: Correct.

CHAIR: I think, Mr Williams, you suggested that this happens on a number of occasions. Are there any precedents for your issuing an addendum report on something so critical from the record of your company's efficiency?

Mr WILLIAMS: Certainly not one that has attracted the level of attention that this one might have. But as I mentioned, it is not unusual. To quantify it: probably five to 10 times a year in the context of 5,000 research reports being issued. So it does not happen often and as I suggested it happens either for matters of factual accuracy or other issues that are raised post publication.

CHAIR: UBS has a reputation worldwide. Normally people would rely on that research and not expect it to be rewritten or changed.

Mr WILLIAMS: I think that is accurate. I think that was crediting us. We believe we have got a reputation for outstanding research and obviously anything that reflects poorly on that reputation is extremely disappointing.

The Hon. ROBERT BORSAK: Do you think a report that goes to the centrepiece of the Government's campaign during an election should have been read and approved before it was released?

Mr WILLIAMS: It is certainly regrettable.

The Hon. ROBERT BORSAK: Especially since UBS would like to get a chunk of that business?

Mr WILLIAMS: I don't think that that is relevant to the research consideration.

The Hon. ROBERT BORSAK: You do not think it is relevant?

Mr WILLIAMS: It is not relevant to the publication of the research.

Mr GROUNDS: To add to that, research needs to be independent. It is very important that it is independent to anything that happens on the investment banking side. The very fact that the research report went out at this point of time highlights our commitment to ensure that our research is actually independent.

CHAIR: How long did it take to issue the correct version?

Mr WILLIAMS: The initial research was released at about 11.15 a.m. on the morning of 17 March. The addendum research was released at approximately 3.30 p.m. on 17 March.

CHAIR: There could have been investors who made decisions in the interim based on that first report which would have been regarded as authoritative.

Mr WILLIAMS: In this particular instance there were no marketable securities related to the publicly owned assets but certainly in terms of forming their judgment around broader issues of industry importance, that is obviously something that we seek to address as quickly as we possibly can.

CHAIR: I was referring to companies that were thinking of being involved in the leasing of poles and wires. They may have felt it was not going to be a very good business proposition.

Mr LEITCH: I say if there was anything that was incorrect in the first report it is something about the State budget which was certainly of no business of anyone seeking to buy some of those assets. As we said in the research report, we wanted to emphasise that we expect the total proceeds for the State would be above people's expectations. I would go further and say that with all the change in technology that is coming through the industry, whilst it is hard to say exactly how that will impact on the value of the networks, we are increasingly of the view that it provides a great opportunity for them to go out and get a new slice of business but it would be very unlikely to get that into government State-owned hands.

If you look, for instance, at the final report or at the submissions from the State-owned businesses to the Energy Regulator they do not want, for instance, time-of-use metering, or communicating metres and yet that is a business that the ANC has said is going to open to everyone. So here you have got State-owned businesses trying to pretend it is still the 1950s when the world is moving into the twenty-first century. I think they need privately owned, much more dynamic management in order to cope with these changes. Another example is all the cases of battery storage, for instance, and even ownership of solar on the rooftops of people's houses. Networks have very low cost of capital. They are arguably ideally placed to be the people who own all this renewable energy that is going to, in my view, be coming through the industry over the next 10 to 15 years.

CHAIR: Do you say it is a good proposition from the Government's point of view?

Mr LEITCH: Absolutely I am.

The Hon. CATHERINE CUSACK: Government members were out in the field campaigning when the news story hit. I know all of my colleagues are interested to know the thinking behind that headline. Whose idea was it?

Mr LEITCH: The headline was my idea.

The Hon. CATHERINE CUSACK: What did you mean by that?

Mr LEITCH: We did not write a report, as I have just finished saying but I will say again, that this was a bad for the budget. What we wrote was a report that said that this would be good for the State. We wrote a report that said Sydney desperately needs a new rail tunnel that will provide 40 per cent more train services, and open up north-west Sydney.

The Hon. CATHERINE CUSACK: You are giving us a great explanation as to the gap between the headline and the report. Why did those words get into the headline in the first place if it was not reflective of the report?

Mr LEITCH: That was just an ill-judged attention-grabbing headline.

The Hon. SCOTT FARLOW: Mr Leitch, one of the things that you said in the Australian *Financial Review* that you wanted to highlight was actually how much debt we would be wiping off with this transaction as well—$15 billion worth of debt.

Mr LEITCH: Thank you, I was surprised actually that the *Financial Review* picked up on that because they seemed to be so interested in the low politics of it all and not in analysing the proper finances of what is one of the most important decisions, in my opinion, in recent history. Where I think this transaction is particularly clever, and a point that virtually no commentators seem to be picking up on, is, in my opinion and I hope I am correct in saying this, that when you lease 51 per cent of an asset you will essentially move 100 per cent of the debt of that asset off the balance sheet. Essentially the State's—and Andrew can explain this better than me—borrowing powers goes up by an amount of 100 per cent of the debt even though you have only sold 51 per cent of the equity.

This is a very great advantage for the State that I think has been completely missed. In fact, that was the single most dominant rationale in writing the report in the first place. That is a point—and I am so glad you have asked a question on that, I know I am not allowed to say that because it is an essential point that I think deserves a lot more commentary that it has actually achieved so far.

CHAIR: The Committee has not seen the report. Mr Grounds will you table a copy and the amended report?

Mr GROUNDS: Absolutely.

The Hon. Dr PETER PHELPS: Mr Fowler, given the current low interest rates and the fact that Queensland has dropped out of the market, is now a good time in your opinion for us to be engaging in this transaction?

Mr FOWLER: For better or worse I have been doing this for about 25 years in terms of advising governments and companies and so forth and I can only think of one other period anywhere near now. If you look at it historically, as you said interest rates are not at medium-term lows, they are at historic lows. Anyone looking at buying these sorts of assets, a major input in their valuing in their models and so forth is cost of debt and their return hurdles. That is demonstrated by the fact that the all ordinaries, the infrastructure and utilities index in the market is at all times highs or at its highest in the past 10 years. The fact that we have had $30 billion of assets we thought were going to be coming to the market out of Queensland not coming is fantastic. I will get Jared to talk to it because he is talking to investors every day, but we are very, very comfortable and very confident there is a long list of people who expressed a lot of interest in these assets. I think it is a perfect time to have a competitive option.

The Hon. Dr PETER PHELPS: Any dawdling or prevarication is not going to help us, is it?

Mr FOWLER: Not at all. Personal view, this is not substance of position of a whole lot of analysis I have done, but dawdling for the past 15 to 20 years has cost the Government a lot of money. It has cost the taxpayers of New South Wales a lot of money. Jared, what are we seeing in terms of investors?

Mr KEY: I think that is right. I think the demand at the moment is pretty much unprecedented and that reflects both on the equity side where I would say returns have come in on a 150 to 200 basis points over the past four years. On the debt side you look at where SWAP margins are, short and long term, very, very cheap. You look at where bank margins are, again very, very cheap. That all goes into the cost of capital. Not only that, given how competitive these processes are, investors themselves are being more aggressive in relation to the underlying forecast that they are growing these businesses on. If we look at this transaction, we expect there will be broad-based interest—domestic, foreign, pension funds, domestic-foreign strategics.

The Hon. Dr PETER PHELPS: One of the things that weighed with me was concerns about liquidity in the market if both Queensland and New South Wales hit at the same time. Now that Queensland is effectively out, it gets rid of both the liquidity problems and also increases the number of potential investors?

Mr KEY: Absolutely.

The Hon. Dr PETER PHELPS: Which leads to competition and higher prices?

Mr KEY: That is right. There is actually a situation here where there will be a limited amount of competing assets of this scale in the market while we run this process. It is not only on the equity side but also in market capacity on the debt side. As David was alluding to, there is a significant amount of debt within these businesses. The ability of the banks to fund these businesses, without the competition from Queensland is far more enhanced.

The Hon. Dr PETER PHELPS: Why are they desirable assets? We have heard that we do not know what earnings they will have in the future; there is no guarantee of the particular price earnings ratio. Why are they a desirable asset? Why are people interested in them?

Mr KEY: Generally, in terms of the funds at the moment, a lot of the domestic and foreign funds are actually underweight for sector. So that market weight or slightly overweight GDP plus type assets in relation to the regulated utilities, a lot of them were actually underweight in that space. So there has been a sort of scarcity in relation to these assets, but the way that the investors will look at these assets will be over a long-term horizon; they will not necessarily look at the next five years in relation to a regulatory determination but they will look at it over a 99-year long-term period. They are a stable regulated asset base with CPI and inflation linked returns. So from an investment point of view, particularly when you look at the nature of the liabilities many pension funds are trying to deal with, they are a perfect offset in relation to what they require.

CHAIR: Earlier I think one of you said—I think it was Mr Williams—that you are not involved in the actual potential leasing arrangements and at some stage UBS could be involved. The Government would need to have a reputable bank handling the transaction on their behalf.

Mr FOWLER: That is correct. That would be the advisory side of the business—so Jarrod and myself.

CHAIR: So at some point you would apply to the Government?

Mr FOWLER: We went through a competitive process almost a year ago, nine months ago now, and we were awarded the mandate to provide a scoping study to the Government, which we have done—we did that jointly with Deutsche—and should a transaction eventuate we would be advising the Government on execution of that transaction.

The Hon. Dr PETER PHELPS: Can I just follow up on that? One of the things that the Chair raised earlier was a question of an IPO. Why do you recommend a trade sale as opposed to an IPO?

Mr FOWLER: I will start on that; Jarrod can add to it if he likes. Because of the dynamics we have just spoken about. We would have met with dozens of investors.

The Hon. Dr PETER PHELPS: In other words, you do not have to drum up interest because they are stampeding towards the door at the moment?

Mr FOWLER: At the moment—now. We have got to remain flexible and the one piece of advice we consistently provide clients is to remain flexible. Right now the best value for the State will be achieved through a trade sale.

CHAIR: And that scoping report you refer to, that is something that is regarded as commercial in confidence, is it not?

Mr FOWLER: Correct.

CHAIR: You cannot provide a copy of that, I understand.

Mr FOWLER: That is correct.

The Hon. CATHERINE CUSACK: Earlier today Dr Kaye asked the Premier why was it that his office contacted you, Mr Grounds, rather than contacting the analyst. Would you like to comment on the appropriate way that you would have expected the Premier's office to—

Mr GROUNDS: Sure. I am not sure who else his office could have contacted, to be honest. I do not suspect they would have our security's personnel's contact details.

The Hon. ADAM SEARLE: Mr Leitch's name and number are on the face of the report. I assume the Premier can read.

The Hon. CATHERINE CUSACK: Is it appropriate for someone from the Premier's office to ring an employee of yours or would you expect them to contact you?

Mr GROUNDS: Let me answer. It was entirely appropriate for the Premier's office to be calling me and for the Premier's office to be calling Guy. Guy has got carriage of investment banking involvement with the Government and I am somebody who would be natural for the Government to ring. To me, it should not be a surprise to anyone.

CHAIR: We will move to Mr Searle.

The Hon. ADAM SEARLE: Mr Grounds, what is the present estimate of the total value of UBS' engagement with the State Government in connection with the advisory work on this transaction?

Mr GROUNDS: I am not sure. In the scheme of UBS' overall operations in Australia, it is not material, if I can put it that way.

The Hon. ADAM SEARLE: Can you put a ballpark dollar figure on it?

Mr GROUNDS: No, I cannot but—

The Hon. ADAM SEARLE: You cannot or will not?

Mr GROUNDS: I cannot. I do not know what the number is.

The Hon. ADAM SEARLE: You do not know what the terms of the engagement are?

Mr GROUNDS: I do not.

The Hon. ADAM SEARLE: Can you find out and tell us, on notice?

Mr GROUNDS: I will get some advice on that.

The Hon. ADAM SEARLE: You said in an interview with the AFR that UBS is confident of beating the reserve price. What is that reserve price that you are aiming to beat?

Mr GROUNDS: I think that was a discussion that obviously happened in the heat of the moment.

The Hon. ADAM SEARLE: You said it.

Mr GROUNDS: Yes, of course, but I think what I was referring to was, if you like, expectations, current expectations. I think as Guy and Jarrod have already highlighted, there could not be a better time to be looking at leasing these assets. So it was a reference to that in terms of—

The Hon. ADAM SEARLE: You did not have any particular figure in mind?

Mr GROUNDS: No, I did not. I am not actively involved in the transaction.

The Hon. ADAM SEARLE: Mr Leitch, you are an experienced analyst. I have read the original report and the so-called addendum—it is not really an addendum, it does not just add material, it reduces the material; it is half the length. This comment about "bad for the budget" is not just a headline; I have counted at least six different places in that original report where you make the point that it is bad for the budget because of the loss of the dividends and the spending of the proceeds of the sale on infrastructure that will cost money rather than make money. You make that point a number of times in the report. Do you recant from that analysis?

Mr LEITCH: As I already explained to the Committee, and I am happy to explain again—and Mr Lilley is actually the expert on at least part of that and will correct me if I make a mistake, because we wrote this report together—there are two points. The first point is that the actual sale of the assets—assuming that the proceeds received are in the range that is being talked about here, and I think we are talking about a range of dividends that the Government will be giving up, I think we used in the original version of the report about $250 million, and that provides a yield on the assets that have been sold of sub 3 per cent, which is less than the Government bond rate. So by just taking that very simple metric, that would, in and of itself, improve the State's fiscal position. You are paying off something that is costing you 3 per cent with something that is only returning 2.5 per cent.

The Hon. ADAM SEARLE: So you are saying your original report was just wrong?

Mr LEITCH: That is in the first type. Then you go on and spend the money and in the static analysis that we did, in 18 years time—and this is where the headline was certainly wrong—on the numbers that we did, without accounting for any productivity benefits, then the State's fiscal position would be worse off. If we were to do the piece of work and factor in all the productivity benefits from all the spending, I think the conclusion that we came to—and we explicitly said that we had not done that and that was the limitation of the research that we spelt out—but had we done that it would be a very extended piece of work; it would take a long time to estimate those productivity benefits, in my opinion.

The Hon. ADAM SEARLE: But you still have not answered the question. Your first report is 14 pages long, the second is seven pages and it completely omits all of the analysis that you provided in the first report about how and why the State budget would take a hit. It is not as if you simply forgot to include a piece of information; the two reports are fundamentally different.

Mr LEITCH: I do not think there is a number changed between the two reports.

The Hon. ADAM SEARLE: No but you omit all the criticisms of the hit on the budget.

Mr LEITCH: The reports are not fundamentally different. The conclusions are not changed and the numbers are not changed.

The Hon. ADAM SEARLE: Did anyone suggest to you changes that should be made?

Mr LEITCH: No—well, yes. We discussed the change to the headline, as I have already—

The Hon. ADAM SEARLE: "We"? Who did you discuss that with?

Mr LEITCH: Mr Williams.

The Hon. ADAM SEARLE: So Mr Williams suggested the change?

Mr LEITCH: He suggested that we issue an addended report, yes.

The Hon. ADAM SEARLE: But did he tell you what areas should be omitted or changed from the original report, other than the headline?

Mr LEITCH: He asked us to include the productivity benefits or to take more account of the productivity benefits.

The Hon. ADAM SEARLE: And to omit the criticisms where it said that the budget would take a hit?

Mr LEITCH: No, he did not actually ask us to do that at all.

The Hon. ADAM SEARLE: He did not need to spell it out; you just understood that to be the case?

Mr LEITCH: I wanted the original intention of the report to come through about what a good transaction this was. It had become apparent to me immediately upon the release of it, from the very first time that Chris came round with a worried look on his face, that the headline in the report was detracting from the substance and the content of the report. So I absolutely fell in with the suggestion that we should fix that up.

The Hon. ADAM SEARLE: Mr Leitch, I find it very unconvincing. This is a very clearly expressed original report.

Mr LEITCH: Is that a question?

Dr JOHN KAYE: Mr Williams, on Mr Leitch's evidence just given then you suggested to him at what I understand to be the first meeting of the day that he change the report and include broader benefits to the State's economy. Is that correct?

Mr WILLIAMS: That was not the first interaction I had with Mr Leitch during the course of the day.

Dr JOHN KAYE: You say it was not the first interaction?

Mr WILLIAMS: No. As Mr Leitch just referenced, the first interaction I had with Mr Leitch was almost immediately after the report was published. We had a number of other conversations, but in forming the substance of what Mr Leitch and Mr Lilley would redraft in the addended piece of research I made two suggestions to them. As we referenced earlier, Mr Leitch and Mr Lilley redrafted that research entirely on their own. I made two suggestions: the first was that I did not think that the headline reflected the substance of the report; and the second suggestion that I made was that they had clearly said that they did not include productivity benefits in the simplistic analysis contained in the report, that they had not even referenced what the potential productivity benefits were. I asked them to make reference to potential productivity benefits.

Dr JOHN KAYE: At the time when you said those words to Mr Leitch and Mr Lilley had you spoken to anybody else in UBS about the issue of productivity benefits?

Mr WILLIAMS: Yes I had, as I referenced earlier on.

Dr JOHN KAYE: To whom had you spoken at that point?

Mr WILLIAMS: As I referenced earlier, I had spoken to Mr Grounds, that that had no substance—

Dr JOHN KAYE: About that specific issue?

Mr WILLIAMS: No.

Dr JOHN KAYE: That was an idea that popped into your head or did it come from somewhere else—specifically the issue?

Mr WILLIAMS: That was my own judgement surrounding the content of the report.

Dr JOHN KAYE: What caused you to form that judgement?

Mr WILLIAMS: I read the report.

Dr JOHN KAYE: No other conversation with anybody else—not Mr Grounds, not Mr Fowler, not Mr Key—

Mr WILLIAMS: Not at that time, no. I formed that judgement, as I said, immediately.

Dr JOHN KAYE: Between the time that you formed that judgement and the time you spoke to Mr Leitch and Mr Lilley you spoke to nobody else about this matter?

Mr WILLIAMS: No, I did not say that.

Dr JOHN KAYE: That is my question to you: Did you speak to anybody else about this matter between the time you formed that judgement—

Mr WILLIAMS: You are going to have to be more specific for me.

Dr JOHN KAYE: I am being very specific now, Mr Williams. In this day you come to this realisation this report does not include the broader benefits to the State. Sometime later you then see Mr Leitch and Mr Lilley and tell them, "I think you should include the broader benefits to the State". In between those two times did you have a conversation with anybody where you spoke about the issue that this report did not address the broader economic productivity benefits for the State and that it ought to?

Mr WILLIAMS: Yes, I did.

Dr JOHN KAYE: With whom did you have that conversation?

Mr WILLIAMS: As I told you earlier, I had that conversation with Mr Grounds at approximately midday and approximately 1.00 p.m.

Dr JOHN KAYE: Did you raise that issue with him or did he raise the issue with you?

Mr WILLIAMS: Very explicitly I contacted Mr Grounds on both occasions and I raised that specific issue with him. I asked if we could obtain a copy of the Deloitte Access Economics report, and that was brought to my office.

Dr JOHN KAYE: But you initiated that conversation?

Mr WILLIAMS: That is correct. I initiated both of those conversations with Mr Grounds.

Dr JOHN KAYE: You are telling us you had the idea and you initiated the conversation?

Mr WILLIAMS: I came to that conclusion, as I have said a number of times, immediately when I read the report.

Dr JOHN KAYE: Mr Grounds, why should I not be surprised that the Premier's chief of staff contacts you? You are the overall boss of Mr Williams, Mr Leitch and Mr Lilley, why would I not be surprised by that?

Mr GROUNDS: Actually I am not the boss. Contrary to popular opinion I am not the boss.

Dr JOHN KAYE: You are the chief executive officer and the country head.

Mr WILLIAMS: I should clarify that. My reporting line as a head of research is actually global; it is not to Matthew Grounds, it is Country Head of Australia.

Dr JOHN KAYE: You share a building?

Mr GROUNDS: Yes, but you characterised that I am the boss of Chris, and I am not. What appears to be continually misunderstood here—so let me be very clear—research is independent of the investment banking business. There are a whole bunch of rules and procedures in place inside UBS to ensure that that takes place.

Dr JOHN KAYE: You have no say over the future employment of Mr Leitch, Mr Lilley or Mr Williams?

Mr GROUNDS: I do not.

Dr JOHN KAYE: No impact whatsoever?

Mr GROUNDS: I do not.

Dr JOHN KAYE: A word from you to head office would not have any impact on them?

Mr GROUNDS: I doubt it very much.

Dr JOHN KAYE: So you are the Country Head?

Mr GROUNDS: Correct.

Dr JOHN KAYE: But of CSS, not of UBS?

Mr GROUNDS: Not UBS.

Dr JOHN KAYE: And UBS contains Mr Williams, Mr Leitch and Mr Lilley?

Mr WILLIAMS: Just to be clear, Dr Kaye, the research business is a global business—

Dr JOHN KAYE: I understand that.

Mr WILLIAMS: My reporting line is regional and it is global in the research business. That separation is structural, that separation is physical, that separation is of all information systems. As I referenced earlier, the research business does not have any of the confidential information that may come from corporate or government clients to the investment bank advisory business.

CHAIR: Mr Grounds, perhaps you could send to us a graph of the organisation.

Mr GROUNDS: I would be happy to.

Dr JOHN KAYE: Mr Grounds, at what point did you become aware of the issue with the draft report? What was the first moment in your life when you thought that this draft report does not really hack it because it does not have an analysis of the putative broader productivity gains of the privatisation project?

Mr GROUNDS: You referred to it as a draft but it was actually a report that had gone out.

Dr JOHN KAYE: I beg your pardon, the report. You are quite right.

Mr GROUNDS: The report had gone out and I actually never read it. I obviously did not read it before it went out, that would be inappropriate. I never read it afterwards either because, again, it is not my job. It is research's possession and Mr Williams was the one who took me through the issues in relation to the report.

CHAIR: Mr Borsak, do you have any questions? We are running out of time.

The Hon. ROBERT BORSAK: No.

Dr JOHN KAYE: It was Mr Williams who first made you aware of that specific issue?

Mr GROUNDS: In terms of the deficiency in the report?

Dr JOHN KAYE: The deficiency with respect to the putative productivity gains for the rest of the economy.

Mr GROUNDS: Yes.

Dr JOHN KAYE: He came to you?

Mr GROUNDS: He did not come to me, he called me.

Dr JOHN KAYE: He called you and he raised that issue with you?

Mr GROUNDS: Yes.

Dr JOHN KAYE: What did you say to him?

Mr GROUNDS: I do not recall exactly but it was a very short discussion and I just carried on to my normal day. At the end of the day, what happens in research happens in research—the good, the bad and the ugly.

Dr JOHN KAYE: But he did call you?

Mr GROUNDS: He did. He made me aware of the issue.

Dr JOHN KAYE: For the purpose of?

Mr GROUNDS: At the end of the day Mr Williams was obviously concerned that this was a matter that had been elevated and was attracting media. It was eventually going to land on my desk. I have a policy in the firm, which is if there is going to be something that is going to cause the firm potential reputation damage let me know as soon as possible.

Dr JOHN KAYE: Mr Fowler, there are two contractual arrangements as I understand it with respect to the New South Wales electricity transaction. The first one is a joint engagement with Deutches Bank to do the scoping study, which I understand is now complete. The second one will be in the event that this Parliament passes legislation and it goes ahead your company has a contract to be the advisers. Is that correct?

Mr FOWLER: Yes, that is correct.

Dr JOHN KAYE: Do you have a rough estimate of what that contract would be worth to your organisation, the gross value of that contract?

CHAIR: Will you take that on notice?

Mr FOWLER: I will take that on notice. No, I do not know to be honest.

The Hon. ROBERT BORSAK: Mr Grounds, earlier on Mr Williams said that there was a coincidence in his questioning the initial report and your discussion with Mr Fowler in relation to him having been contacted by the Government. What did you and Mr Fowler discuss when Mr Fowler approached you about the approach he had from the Government?

Mr WILLIAMS: I am sorry, you have confused me.

Mr GROUNDS: You have certainly confused me.

The Hon. ROBERT BORSAK: In your evidence you said that there was a coincidence between your reading of the draft report.

Mr WILLIAMS: No, Mr Borsak, to clarify I believe you are referring to when Mr Leitch and Mr Lilley brought to me the draft version of the addendum report. Is that the point in time?

The Hon. ROBERT BORSAK: No, I believe earlier you talked in terms of there being a coincidence in you reviewing that draft report.

Mr WILLIAMS: There is no coincidence in me reviewing draft research. I review dozens of—

The Hon. ROBERT BORSAK: That addendum report then—

Mr WILLIAMS: I specifically asked Mr Leitch and Mr Lilley.

The Hon. ROBERT BORSAK: —and the discussion that Mr Grounds had with Mr Fowler.

The Hon. CATHERINE CUSACK: I think he meant incidental.

Mr WILLIAMS: I specifically asked Mr Leitch and Mr Lilley to bring the draft of the addendum report to me to have a review before it was published.

The Hon. ROBERT BORSAK: Mr Fowler, when you went to talk to Mr Grounds about the phone call you had what did you discuss?

Mr FOWLER: I did not go and talk to Mr Grounds about the phone call I had. When I returned to the office after I had been to the board meeting I referred to he called me. He made me aware that research were working on an amended report and he asked me to source a copy of the Deloitte Access Economics report.

The Hon. ROBERT BORSAK: Are you saying—

The Hon. SCOTT FARLOW: Point of order: The member previously forewent his time for Dr Kaye to continue asking questions. Mr Chair, this is eating into Government members' time and your time to ask questions.

CHAIR: We will move to Government members for final questions. We are over time for the hearing.

The Hon. CATHERINE CUSACK: Mr Leitch, this has been very awkward and I thank you very much for coming in. There is obviously a real sense of integrity about the research that you guys do and a sense that it is not to be crossed over with other branches. Just coming back to the original title and the purpose of your research, is it fair to say that you were trying to show there are swings and roundabouts in the transaction and you were trying to capture that in the headline? I am just trying to understand.

Mr LEITCH: There is a lot of competing research reports that are out there in the market every day. I guess to some extent you have to write a headline that will get people to read the report in the first instance. In this particular case I should have realised that anything written at all on this topic would not have needed any headline at all, but we did do some work on the budget in the static analysis, subject to a fairly restrictive set of assumptions and without—

The Hon. CATHERINE CUSACK: I am not seeking to embarrass you about the headline. It is just that you must have had some thinking behind that. I am wondering if you were trying to capture the fact that there are ups and downs and on balance it is good. Would that be a fair summary?

Mr LEITCH: Yes.

The Hon. CATHERINE CUSACK: And that was really what you were trying to get at?

Mr LEITCH: Yes.

The Hon. CATHERINE CUSACK: Then you realised it was all being taken too simplistically.

Mr LEITCH: Yes.

The Hon. Dr PETER PHELPS: Mr Williams, were you previously a researcher? Did you write research reports in the way that Mr Leitch and Mr Lilley did?

Mr WILLIAMS: I did, that is correct.

The Hon. Dr PETER PHELPS: It would hardly be surprising that you, as a former researcher, might have seen research done by your colleagues and said, "I think there might be something missing here. Perhaps it needs a revision." In other words, you can think for yourself as a researcher and say, "I believe that this is a deficient piece of research, it probably needs some amendment."

Mr WILLIAMS: I would like to think that is an accurate description.

The Hon. Dr PETER PHELPS: You have come from the system where research reports are written, you have written them yourself, and you think, "Okay, this could have been a bit better done." There just seemed to be some implication that in your position as the head of research you did not have any right to use your own critical judgement in terms of the research produced by your staff.

Mr WILLIAMS: For my sins I have probably produced several thousand pieces of research in my own right over the course of the last 10 or 12 years and I review many dozens of pieces of research before they are published on a day-to-day, week-to-week and month-to-month basis. It is not at all unusual that I review research prior to its publication and debate its merits and the substance of its conclusions with senior and experienced analysts across a range of sectors. That is absolutely within the scope of my role.

The Hon. CATHERINE CUSACK: With hindsight maybe this would have been a good one?

Mr WILLIAMS: There are plenty of things with hindsight that we would like to change but I think it is obviously embarrassing, it has damaged the firm's reputation for the quality of our research. I did not have the opportunity to review this piece of research prior to its publication. I would have liked to have done that.

The Hon. ADAM SEARLE: Would you ordinarily have done so?

Mr WILLIAMS: As I said, for any number of reasons I will review research prior to its publication.

The Hon. ADAM SEARLE: But not in every case?

Mr WILLIAMS: Not in every case. As I mentioned, there are 5,000 pieces of research produced from our team in Australia and New Zealand. It is not practical for me to review every piece of research. We might not have wasted this Committee's time.

The Hon. ADAM SEARLE: How often has your research had to be changed like this occasion?

Mr WILLIAMS: I believe I covered that question several times earlier.

CHAIR: I asked that question. We are now over time and we will have to conclude the hearing. We thank you very much for appearing and providing us with a range of your experts from your company. We know time is valuable, so we appreciate the time you have given to us. You will have three calendar days from the receipt of the transcript to provide answers to any questions taken on notice.

(The witnesses withdrew)

(The Committee adjourned at 4.53 p.m.)