

**REPORT OF PROCEEDINGS BEFORE**

**SELECT COMMITTEE ON THE LEASING OF  
ELECTRICITY INFRASTRUCTURE**

**INQUIRY INTO THE LEASING OF  
ELECTRICITY INFRASTRUCTURE**

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**At Sydney on Monday 18 May 2015**

**The Committee met at 9.00 a.m.**

**PRESENT**

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

The Hon. D. J. Clarke  
The Hon. R. Borsak  
The Hon. C. E. Cusack  
Dr J. Kaye

The Hon. T. J. Khan  
The Hon. Dr P. Phelps  
The Hon. P. T. Primrose  
The Hon. A. Searle

**CHAIR:** Welcome to the third and final hearing of the Select Committee on 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. This morning the Committee will hear from various representatives of the Council of Social Service of New South Wales and the Public Interest Advocacy Centre. We will then hear from Mr Stephen Koukoulas of Market Economics, author, Ms Sandra Dorroch, and from former New South Wales Treasurer, the Hon. Michael Egan, AO. This afternoon we will take evidence from retired Professor Bob Walker and Dr Betty Con Walker, followed by Ms Amelia Christie from the Combined Pensioners and Superannuants Association of Australia. We will then hear from the New South Wales Treasurer, and the Secretary and Deputy Secretary of Treasury. Finally this afternoon we will take evidence from representatives of On-Market BookBuilds and Mr Milton Caine of Newcastle.

Before we commence 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 the hearing. I therefore urge witnesses to be careful about any comments they may make to the media or to others after they complete their evidence as 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.

**CAROLYN HODGE**, Senior Policy Officer, Council of Social Service of New South Wales [NCOSS], and

**TRACY HOWE**, Chief Executive Officer, Council of Social Service of New South Wales, sworn and examined, and

**GABRIELLE KUIPER**, Senior Police Officer, Public Interest Advocacy Centre, affirmed and examined:

**CHAIR:** Do you wish to make a brief opening statement?

**Ms HOWE:** Yes, thank you, Reverend Nile. On behalf of NCOSS, I would like to make some opening statements. I would like to start by thanking the Committee for the opportunity to give evidence on behalf of NCOSS. NCOSS believes that energy is an essential service that must be accessible for all people in New South Wales, including people experiencing poverty and disadvantage, and those living in households with low incomes. Sadly, while electricity prices have plateaued over recent years disconnections for an inability to pay are continuing to rise. Over 32,000 households were disconnected in 2013-14 and figures for the first six months of this financial year show these figures are actually continuing to trend upward.

Given the essential nature of electricity, NCOSS believes any changes to the New South Wales electricity market must be approached with caution and a careful analysis of any actual or potential impacts on people, especially those who may be struggling to pay their bills. With network costs making up over 50 per cent of people's electricity bills it is important that the process of leasing the three State-owned electricity networks is carefully managed to avoid negative outcomes for consumers and reduce the potential for unintended consequences.

NCOSS welcomed the recent determination of New South Wales network prices by the Australian Energy Regulator that could see New South Wales households save between \$106 and \$313 per year on their electricity bills. NCOSS hopes the networks which are currently owned by the State will accept the decision of the independent regulator and that retailers will indeed pass on the full value of these reductions to consumers. In January 2015 NCOSS released "Consumer Power: The lease of the NSW Electricity Networks from an electricity consumer's perspective". This comprehensive piece of work focused on understanding the issues that are raised by the partial proposed lease of the New South Wales electricity networks and the possible impacts on New South Wales electricity consumers. A copy of the report was submitted to the inquiry last week. The report was published before the announcement that a price commissioner would be appointed to oversee the implementation and operation of the price guarantee.

NCOSS welcomes this announcement as our key concern was ensuring that electricity consumers did not pay more for an essential service because of the lease. We saw the potential for price rises coming from two streams: firstly, the potential for the costs of the lease process to be passed on to consumers, and, secondly, for costs to rise due to lease conditions or complex ownership arrangements. NCOSS believes maximising transparency around lease processes is important to realising benefits and minimising risks for electricity consumers.

Careful study of previous electricity privatisation processes in 2011 has revealed that even last year attempts were still being made to pass on transaction-related costs to electricity consumers. Of course, we do understand that some parts of the process must be confidential; however, there are elements of the lease that should be explained and developed through an open consultative process, with opportunities for a range of stakeholders to comment. For example, it is still unclear under the partial lease model what governance structures will be in place and how the interests of the State will be represented in networks that remain partially State-owned. Similarly, a clear explanation about whether the State retains any responsibility as a part owner to provide or guarantee finance would allow people to gain an understanding about how risk is being managed under partial privatisation.

An open consultative process will help to ensure the process benefits from a range of expertise so unintended consequences can be identified and avoided. Expertise should be drawn, NCOSS would say, from consumers, State and Federal energy regulators, finance, network businesses and government. These groups could also work closely with the price commissioner in a short-term advisory group to support the Government and the price commissioner by highlighting potential risks and the need for appropriate safeguards. Indeed, this may be the plan of the Government but we would certainly say on the record we would like this as a recommendation.

One important safeguard under the State ownership of electricity networks is the Minister for Energy's capacity to direct the businesses to act in the public interest as outlined by the State Owned Corporations Act. While ownership structures may change electricity networks will continue to provide New South Wales households with an essential service that operates under a monopoly. NCOSS urges the New South Wales Government to assess whether changes to the regulatory framework or the introduction of reserve powers are necessary to compel partially privatised networks to act in the public interest where extraordinary circumstances occur. This kind of power may be used to protect vulnerable families from disconnection for a set recovery period following a natural disaster.

I note the Premier's appearance at this inquiry on Monday and his comment that Allan Fels will sign off that each transaction will not put upward pressure on prices in the short, medium or long term. I ask that this assurance includes an assessment of whether opportunities for savings and economies of scale that were to result from the amalgamation of the distribution networks under Networks NSW in 2012 will be lost and new costs will be introduced if the networks are disaggregated in the lease process.

Finally, NCOSS believes this period of change in the New South Wales energy market should include a shift away from the current flat rate energy concessions to percentage-based rebates. This has been a recommendation of ours longstanding. Flat-rate rebates fail to recognise that households in rural and regional areas of New South Wales pay \$500 more on average per year than urban households due to higher electricity network costs in these areas. A move to percentage-based rebates would ensure a more responsive and equitable rebate framework. Concessions calculated as a percentage of the bill provide vulnerable customers with greater assurance that they will receive the support they need regardless of changes in the market. They also serve to better align the New South Wales Government's interests with those of low-income households. That concludes my opening comments.

**CHAIR:** Dr Kuiper, do you wish to make an opening statement?

**Dr KUIPER:** A brief one, thank you. By way of background, I should explain that the Public Interest Advocacy Centre [PIAC] is a community legal centre that also works on policy. We work across a whole range of areas from running a homeless person's legal service through to an Indigenous justice program. The part of PIAC I work for is the Energy + Water Consumers' Advocacy Program. This program has been running for 17 years, funded by the New South Wales Government, to advocate for residential consumers within the national electricity market. I very much endorse a lot of the comments made by Ms Howe in regards to our concerns about low income and vulnerable consumers. While PIAC focuses on all residential consumers, we have a particular concern about low income and vulnerable consumers given the nature of energy, at least historically, as an essential service.

For the purposes of this inquiry, we have one key focus and that is our concern about how regulatory failure has combined with Government ownership to lead to large, in fact, excessive regulated asset bases and stranded assets. This is not a circumstance that has just occurred in New South Wales, it has also occurred in Queensland. As a consequence of all of this and the past decade of changes, what we are seeing now is that households and businesses in New South Wales are paying twice the amount per kilowatt hour than are households and businesses in Victoria for the same service of electrons being sent from a power station.

Not only did we include a report, which I will discuss in a moment, but we included our submission to the governance review of the Australian energy markets, which is currently underway, in our evidence to the inquiry. I draw your attention to some of the figures in that report. Figure 5 on page 22 shows the revenue per customer in 2002 compared to 2013 across a different range of network businesses. There is a story that progresses from that. You can see what the increases were in the Queensland and New South Wales businesses. Most particularly, I draw your attention to figure 6 on page 22, which shows the difference in the regulated asset base per connection and how that has changed over time between the privately owned networks across the national electricity market and the Government-owned networks. In summary, the figure shows that Queensland and New South Wales network businesses have dramatically increased their regulated asset bases over the last decade. For those who are not aware, the regulated asset base is effectively all infrastructure, so the poles and wires and substations that are owned and operated by those businesses. Obviously the privately owned businesses have also increased their regulated asset bases, but by no means by the same level. On page 23, figure 7 gives you the comparison in an international context. You can see that the privately owned distributors, which are in blue, have been roughly tracking similar to ones in Great Britain, New Zealand and in fact Ontario, whereas the Government-owned distributors have dramatically increased their regulated asset bases. Why does

that matter? It means there has been overinvestment and it means that there are high prices. As Ms Howe said, half of electricity prices are based on the network price and the network price is mainly based on the regulated asset base.

Upon seeing the figures PIAC was very concerned and we commissioned Bruce Mountain, who is a regulatory economist, to conduct research to look at the extent of the overinvestment and therefore what the extent of the stranded assets might be. He examined a comparison case to get a sense of the size of what the overinvestment might have been. He looked at the changes from 2000 to 2013 to the regulated asset base of the Victorian privatised businesses and tracked that on a per connection basis and then applied that back to the same time period for New South Wales. If you take the Victorian scenario and apply it back to New South Wales, you get a difference between what the asset base is now in New South Wales and one that is \$9 billion lower.

We believe that is highly significant and, therefore, we are concerned that if the New South Wales businesses are sold with that regulated asset base value, then that will mean ongoing higher prices for New South Wales consumers and that, effectively, they will be paying for stranded assets. Because of our concern with consumers' interests, we have suggested that the New South Wales Government consider the possibility of writing down the value of the networks prior to sale. We are not saying it should be done or by how much. The \$9 billion was effectively a scenario, but we believe there should be open and transparent discussion on this issue and that that discussion takes place so that New South Wales consumers are not left with ongoing excessive prices for network services.

**The Hon. ADAM SEARLE:** Ms Howe, you said in the submission of the Council of Social Service of New South Wales [NCOSS] that the Government should release the scoping study findings so that your organisation and the wider community could make a proper evaluation of the transaction—preferably before the election. I think you have made a couple of recommendations about disclosure of certain matters, such as governance arrangements, that should have occurred before the election. What has been the impact of your ability to evaluate the transaction because of this information not being in the public domain?

**Ms HOWE:** I guess it limits our capacity to some extent in so far as we do not have access. However, it is never too late and we would recommend and request that we have access to such information. Certainly we see that there is good opportunity sooner rather than later to employ some good governance over this and governance that includes a significant number of different stakeholders so that there is nuance to this so that we do not have any unintended consequences. Carolyn Hodge is an advocate and energy expert. She prepared this report for us. It has been very interesting to talk to Carolyn about the issues that have arisen in previous transactions that could be avoided if we start now. It would have been better to have it before the election, indeed, but we are where we are and it would be good to have such information now.

**The Hon. ADAM SEARLE:** Ms Hodge would you like to expand on that and take us through some of the governance arrangements that your organisation thinks should be put in place?

**Ms HODGE:** One of the key differences in this process is that we are not talking about a full privatisation. We are talking about a partial privatisation, so it is uncharted territory in many ways. We learnt some lessons from the retailer privatisation and the Gentrader model, which are housed in our report. What is not clear at present is how the State would face risk as a partial owner to the electricity networks. There has been a little bit more information. The Government's submission to this inquiry contained a little bit of information about risk and borrowing but not enough to really ascertain whether the governance arrangements would work well. I am not an expert in that but it would be good to have it transparently outlaid so that that assessment could be made.

Also, what we have not been able to see is how those holding companies that will come to the fore to represent the interests will interact with the private owners. There was some concern in the Gentrader deals where private interests and government interests could not quite work well together. There were some risks that showed up around that. I think that more information and transparency about how all this will work before we commit to the lease proper will be beneficial in highlighting where there are any risks, where those risks need to be managed and to give consumers assurance that the Government is looking at this and has strategies in place to protect their interests.

**The Hon. ADAM SEARLE:** On that, we know the proposal is to lease 100 per cent of the operations or the business of TransGrid, the transmission business, and to lease 50.4 per cent each of Ausgrid and Endeavour. With Ausgrid and Endeavour we have a situation where the Government will be in a minority. We

are talking about a 49 per cent lease, but it is a majority of the three companies. What risks do you see to the public interest flowing from with the Government being in a minority position in relation to TransGrid and Endeavour and having no stake left in TransGrid in an operational sense?

**Ms HODGE:** I am not sure I would go into what is the absolute risk. I think it is the change that needs to be explained. When you have a state-owned corporation, legislation overarches the way that corporation is run and the Government has capacity to step in. That seems to be appropriate for an essential service that also operates as a monopoly. I guess what is not clear is how an organisation that is the majority is owned by a private lessee will operate if, say, there is a large-scale natural disaster. Would the Government be able to step in as a partial owner? Would the Minister be able to direct the business as he can now to act in the public interest? These sorts of things are considerations that we have in the system now that people feel reasonably comfortable about. Because it is an essential service, an explanation about how this might work under the partial privatisation model would be useful in gaining an understanding of whether they felt as protected under this model as they do currently.

**The Hon. ADAM SEARLE:** The Government has made certain announcements about the Price Commissioner. I think Ms Howe mentioned it in her submission. Last week, prior to the Premier's appearance before this Committee, there was also announced a range of step-in powers for the Minister for Energy. Apart from what we have read in the media, has your organisation seen any details about the legislative basis or what the powers for these two bodies would be?

**Ms HOWE:** Not as yet.

**The Hon. ADAM SEARLE:** Do you think it would be useful to your organisation and to the wider public if the full details of those protective measures were made public before Parliament enacted the legislation to commit to the lease so we can make a proper evaluation of the total package?

**Ms HOWE:** Since the release of this report the position of NCOSS has always been that we should be transparent from the beginning. We are looking at an essential service and the constituents that we represent are the most disadvantaged and vulnerable so we need to know as much as possible before the lease is signed. Also, it is helpful to whoever is entering into the transaction so that any unintended consequences are laid out for them as well. NCOSS would like to have access to that.

**The Hon. ADAM SEARLE:** One area that has been contested in the evidence before us and in the public discourse has been about the impact of the transaction on the New South Wales State budget. For a number of years, these State-owned electricity companies have returned a significant amount of revenue to the State, which has been spent annually on a whole variety of services and infrastructure. Does your organisation have any concerns about the potential absence from the budget of that revenue stream and the impact it might have on the funding of social services?

**Ms HOWE:** Certainly it would be our view it would be a tragedy if social services were impacted in any way by the sale of the lease. Of course we already have an area that is underfunded, to some extent, and in many areas, so it would be our view that it would be a pretty bad outcome if that is what was to happen. What we know is that currently there is no indication that that is what is going to happen, so we have yet to see that as the potential outcome from this. We would hope not.

**The Hon. ADAM SEARLE:** In the past couple of years these bodies returned about \$1.2 billion to the State Government, and that has been spent in the Government's annual budget. All of the lease proceeds are earmarked for infrastructure—bricks and mortar.

**The Hon. TREVOR KHAN:** And there are the consequent jobs.

**The Hon. ADAM SEARLE:** The Hon. Trevor Khan will get his chance.

**The Hon. TREVOR KHAN:** About 120,000.

**The Hon. ADAM SEARLE:** However, the question is that if those billions of dollars of revenue go from the annual budget and it is replaced by infrastructure spending does that have a potential impact on social infrastructure spending out of the annual budget?

**Ms HOWE:** I suppose there are potential losses to any part of the budget. As advocates for people experiencing disadvantage and poverty, we would be very much at the forefront saying there should be no cuts to our constituents.

**The Hon. ADAM SEARLE:** For the avoidance of anxiety, do you think an independent evaluation of any budgetary impact would be a useful step for the Government to take prior to entering into the lease so that everybody has a full picture of the financial circumstances?

**Ms HOWE:** Potentially, yes.

**Dr JOHN KAYE:** I would like to pick up on that. You do not want your constituents to lose out in this process. Who should lose out? If it were true that there were \$1.8 billion less going into the budget, where would you cut?

**The Hon. TREVOR KHAN:** Where did the \$1.8 billion figure come from?

**Dr JOHN KAYE:** I was out; it was \$1.7 billion. Where would you see that cut coming from?

**Ms HOWE:** I advocate for the constituents I represent and I have not turned my mind to who should bear the brunt of those losses. I would simply be advocating that it should not be those who are our constituents in the social services sector.

**Dr JOHN KAYE:** Is it not generally true that when budget constrictions appear the first people who suffer are those who can least afford it?

**Ms HOWE:** I have never assessed that in any forensic way. However, I certainly know—

**The Hon. TREVOR KHAN:** That is just a Greens assertion.

**Dr JOHN KAYE:** Point of order: I am sure the witness does not need prompting from the Hon. Trevor Khan. Perhaps he could let her answer the questions.

**CHAIR:** Dr Kaye does not need any help.

**The Hon. CATHERINE CUSACK:** He is not asking questions; he is making statements.

**CHAIR:** Dr Kaye is asking questions and members will not interrupt him.

**Ms HOWE:** Thank you. As an advocate for people experiencing disadvantage and poverty, going forward it would be our position to lobby and advocate hard that they should not be impacted by any financial restraints that occur because of the lease. I cannot comment about where cuts should occur. It is not something to which I turn my mind.

**Dr JOHN KAYE:** You said that you hope that the retailers will pass on any reductions. You are aware that the retail price in New South Wales is now deregulated.

**Ms HOWE:** Yes.

**Dr JOHN KAYE:** You are aware therefore that the retailers might not pass that on.

**Ms HOWE:** That is why I said "hope".

**Dr JOHN KAYE:** So this privatisation and the impacts that it might or might not have on low-income households are based on the hope that the retailers will be nice.

**Ms HOWE:** That would be the case whether or not there is a lease.

**The Hon. ADAM SEARLE:** Do you think that the retailers should be subject to the Australian Energy Regulator regime in the same way as the network?

**Ms HOWE:** If we are looking at our constituents particularly, I guess that would benefit them.

**Dr JOHN KAYE:** In your letter introducing the consumer power document that you submitted you express a hope that the privatisation process will leave in place safeguards that allow the New South Wales Government to exercise control. Are you aware that sections 20N, 20O and 20P of the State Owned Corporations Act apply to state-owned corporations and not to private, semi-private or semi-public organisations?

**Ms HOWE:** Yes.

**Dr JOHN KAYE:** Are you aware that the New South Wales Government's capacity to issue directions to the boards that are making the operational decisions will no longer exist?

**Ms HOWE:** That is why we are asking that consideration be given to the creation of some other mechanism or instrument.

**Dr JOHN KAYE:** What other mechanism or instrument would you think was appropriate?

**Ms HOWE:** It would be appropriate for me to refer that question to Carolyn Hodge because she has considered a couple of options.

**Dr JOHN KAYE:** Ms Hodge, would you like to tell the Committee what you have in mind to replace those powers?

**Ms HODGE:** There could be a condition under the licensing arrangements mimicking in some way the powers in the State Owned Corporations Act. We acknowledge that the step-in rights have been raised as a result of submissions from the Government. We have not had a lot of detail about that and it has happened since the publishing of our report in January. We believe that the step-in rights cover issues where the network operator has fallen outside the law. We are talking about extraordinary circumstances; for instance, if due to the recent storms an area such as the Hunter were remarkably affected by the weather and families were experiencing a lot of disadvantage, the Government could make a ruling to protect them from disconnection for a period while they recover. Because the retailers are in an open market now, it would be very difficult for the Government to ask them to do that. However, the network is a common denominator and it also has the physical power to do the disconnection. It would be a lot simpler for the Government to direct the network in that way. We are talking only about extraordinary circumstances; we do not believe they should step in on a whim.

**Dr JOHN KAYE:** To be clear, you are not worried about the section 20N powers that might disappear, for example, on capital investment or any other aspect that might impact the prices. You want that power only in extraordinary circumstances.

**Ms HODGE:** It is up to the Government to make an assessment of what will happen if the network assets are leased. We have a key concern about vulnerable electricity consumers.

**Dr JOHN KAYE:** That concern goes beyond the extraordinary circumstance of a storm causing disconnections; it might go, for example, to a situation in which a greater degree of the asset cost falls on the people you represent because of a greater uptake of solar power and batteries and disconnection of high net worth households. That would be a matter of concern for you.

**Ms HODGE:** Pricing is a matter for the Australian Energy Regulator. We have a framework in place that does not take that into account. It has in many processes acknowledged that it does not have regard for ownership. Whether the networks were part privatised or wholly owned by the State, the Australian Energy Regulator would look at a range of issues under the regulatory framework. If, for instance, energy market innovation were impacting particularly on vulnerable consumers or electricity consumers more broadly, any organisation, including NCOSS, could move for a rule change to ensure that consumers were protected.

**Dr JOHN KAYE:** Have you ever been involved in trying to change the market rules?

**Ms HODGE:** I have made submissions to rule changes.

**Dr JOHN KAYE:** Were you successful?



**Ms HODGE:** I did not move the rule change; I simply made submissions.

**Dr JOHN KAYE:** It would be fair to say, would it not, that the experience is that it is very hard to change the rules?

**The Hon. TREVOR KHAN:** Was that a question or simply an assertion?

**The Hon. CATHERINE CUSACK:** I would like to hear a response to that if that is okay.

**Dr JOHN KAYE:** No. I am asking the questions.

**The Hon. CATHERINE CUSACK:** You just made a speech and I would like to hear a response.

**Dr JOHN KAYE:** Is it not true that under section 20N, for example, it would be possible for a State Government to instruct a state-owned corporation to charge below the Australian Energy Regulator rates? The regulator revenue collection and approved rates are the maximum, not the minimum.

**Ms HODGE:** You will have to forgive me; I do not have section 20N particularly in my memory at this time. However, the Queensland—

**Dr JOHN KAYE:** I am referring to the State-owned corporation powers.

**Ms HODGE:** Yes. The Queensland Government directed the networks in Queensland to charge under the Australian Energy Regulator rates.

**Dr JOHN KAYE:** But they were publicly owned networks.

**Ms HODGE:** Yes.

**Dr JOHN KAYE:** It could not do that with privately owned networks.

**Ms HODGE:** That is correct.

**Dr JOHN KAYE:** Is your organisation then concerned that privatisation will remove that capacity?

**Ms HODGE:** I think we have to be very careful about directing regulated businesses to charge a particular price because the regulator has a whole range of expertise. The businesses and the regulator are set up to work within the regulatory framework, which is developed in consultation with all jurisdictions. If you were to step in and to direct the businesses to charge a price that might not be efficient—and say "might"—then that might have impacts on consumers down the track. While I understand the question, I think we have to consider consumers at multiple points in time. I would prefer to have a regulator that has in-house expertise to give careful and considered advice about that.

**CHAIR:** Thank you again for appearing before the Committee. I appreciate your assistance. There was a suggestion in the questions that there might be some sort of cut to the social service allocations. Have you had any indication from the Government that that might occur because of the leasing of the electricity transmission network?

**Ms HOWE:** No.

**CHAIR:** Is it likely to happen?

**Ms HOWE:** I could not say what is likely to happen, but there has been no indication.

**CHAIR:** Under the current figures, the dividends and tax-equivalent payments in 2012-13 were \$1.7 billion, in 2014-15 they were \$1.17 billion—which was a large decrease—and in the 2015-16 budget the figure is only \$400 million. If these figures are correct, the dividends will not have any effect on the people you serve—the consumers.

**Ms HOWE:** If that is correct, it is reassuring.

**CHAIR:** I note that in your submission you emphasise the Government doing things in the public interest. It has appointed a price commissioner and you have commended that. Do you recommend any other proposals that would help to protect the public interest with the leasing of the electricity transmission assets?

**Ms HOWE:** I alluded to two things in my opening statement about support for the price commissioner having a governance committee of some description. NCOSS is perfectly happy to provide support in that regard.

**CHAIR:** A consumer committee?

**Ms HOWE:** Yes. That is about the front end and not simply waiting until the lease is about to be signed. This relates to creating the lease and looking for unintended consequences as we go. The other thing that is very important is that we have some advocacy funding for consumers. We feel that not enough onus is put on the rights of consumers and it would be very good if we had funding set aside for consumers. This is also a complex transaction and it is new; we have never had partial leasing before. It is very important to be as cautious as possible to avoid any impact on consumers and the most vulnerable. I reiterate for the record that the percentage-based rebate system would be very helpful for people who are doing it tough. At the moment there is a flat rate and that does not help everyone. If you are in a rural and regional area with a family and you have poor insulation, you are getting the same rebate as a single person in a unit that is more energy efficient. We would say that a percentage-based system is something that we would be really pleased to see come from this.

**Ms HODGE:** Could I add one thing: The price commissioner will look at the pre-transaction documents. Because Essential Energy is not going to be part of the transaction—100 per cent of it will be retained by the Government—there might be a need to look at the disaggregation of the networks. At the moment, the distribution networks are aggregated under Networks NSW, and the Government has outlined significant savings that this aggregation has brought to the fore. We would say that an assessment of whether the partial privatisation has any impact on customers in the Essential Energy supply area should be considered and, if that is the case, then those impacts should be funded from the lease price and not from the consumers.

**The Hon. DAVID CLARKE:** Ms Howe, the appointment of price commissioner, who must sign off on each transaction so as to stop upward pressures on prices and if a guarantee cannot be given on this then it will not proceed, is an important safeguard, is it not?

**Ms HOWE:** It is, and we have reflected that.

**The Hon. DAVID CLARKE:** That should give you a lot of comfort.

**Ms HOWE:** It gives us comfort, but as we have said there are some helpful additions that could be made to that.

**The Hon. DAVID CLARKE:** Ms Hodge, would you agree with that?

**Ms HODGE:** I think that is the case. Because we are operating in uncharted territory, information is coming to hand, with interested parties coming into this, and there is daily new information. It would be helpful to have a process wrapped around the price commissioner process to investigate that, with a range of expertise.

**The Hon. DAVID CLARKE:** Particularly as advice is going to be publicly disclosed, so it is going to be a totally transparent process. Is that what you are talking about?

**Ms HODGE:** Yes, that is correct. Our interest is representing consumers and we think that supplementation from a range of expertise needs to come to the fore. State and Federal regulators, IPART and the Australian Energy Regulator would be interested parties that could play a role with the price commissioner to strengthen consumer input as well as input from larger users. We want to look at everything forensically and test the risk of unintended consequences, manage around these and make sure there is value for consumers.

**The Hon. CATHERINE CUSACK:** I thank the Public Interest Advocacy Centre [PIAC] for the work it has done quietly over many years by making these submissions, including on the issue of overinvestments that you have identified as \$9 billion. Is that figure referred to in your report?

**Dr KUIPER:** Yes, it is. We are not saying that it is an exact figure, but we wanted to look at one scenario of how you might estimate the overinvestment.

**The Hon. CATHERINE CUSACK:** So that is benchmarking it against Victoria?

**Dr KUIPER:** Yes, against Victoria over those 13 years.

**The Hon. CATHERINE CUSACK:** In your view, is the regulatory system effective? Six years ago we were being told we were going to run out of power and needed more transmission lines. I live on the North Coast, where there was a proposal to build high transmission lines through the World Heritage-listed national park from Tenterfield to Lismore. Of course, they turned out not to be needed, which is what people were trying to say in the first place. When a system is so driven by stakeholders, do we have the right balance in the regulators for consumers?

**Dr KUIPER:** When you look at the results they suggest that we have a really high regulated asset base on a per connection basis. It is significantly higher—like 2, 3, 4 or more times higher—than overseas jurisdictions, which suggests that there is something broken about the regulatory system. That is why we included our submission to the governance review that is currently underway. That looks at all of those issues and proposes some changes to the overall regulation of Australian energy markets to try to ensure that the issues do not happen again.

**The Hon. CATHERINE CUSACK:** One of the benefits of the Government stepping back from ownership, from a governance point of view which has been talked about today, is the concept that when the owner has a regulatory role that tends not to be done as well as when the regulatory role is separated from the owner. So if the Government has monopoly ownership of an asset and also a role in regulating that asset, you are potentially not going to get the best outcome for the consumer.

**Dr KUIPER:** There is subtlety here in that what we have seen when there has been a dramatic rise is that has been primarily when the regulation was transferred from the state regulator to the Australian Energy Regulator, as the regulator across the national electricity market for networks. It seems that something has happened in the transition from a state-based regulator to a Federal regulator with different rules that has allowed this massive increase. Something about that process has resulted in detrimental outcomes for consumers in New South Wales and Queensland.

**The Hon. CATHERINE CUSACK:** PIAC has spent years trying to highlight this, am I correct?

**Dr KUIPER:** Yes, although we have only recently commissioned this report looking at that level, but we have been highlighting the overinvestment in the network for a very long time.

**The Hon. CATHERINE CUSACK:** Absolutely. I cannot help but notice that it has been greater in New South Wales, where it was publicly owned. Where there are privately owned interests, are they more publicly accountable in the regulatory process than are publicly owned interests? That is one of my great hopes and reasons for supporting this process.

**Dr KUIPER:** I would not use the term "publicly accountable", but we seem to have seen better outcomes in the interaction between ownership and the regulatory system where the businesses have been privately owned, which is why you are seeing consumers in Victoria paying half the network prices that consumers in New South Wales are paying.

**The Hon. ADAM SEARLE:** And you are paying higher overall electricity costs.

**The Hon. CATHERINE CUSACK:** I am an Essential Energy user. Last week the unions told us the reason we are paying \$500 more than everybody else is to avoid blackouts or to have them fixed more quickly. I got home to a blackout at the weekend although there was perfectly nice weather. Do you accept that \$500 extra per year on average for consumers—given that the lowest incomes in the local government areas in this State are in the Clarence, the Tweed and the Richmond valleys—has meant the system as it operates at the moment has delivered good outcomes for those consumers?

**Ms HOWE:** NCOSS's decision in relation to low-income earners, particularly those in rural and regional areas, has always been that we are concerned about the number of disconnections. There is a reflection in those disconnections that the trend is upwards, so we do have concerns about the impact on low-income families. There is a particular impact in rural and regional areas as \$500 a year for some families is huge.

**The Hon. CATHERINE CUSACK:** For all families, actually. Many consumers feel that they have been abandoned.

**Ms HOWE:** I take your point. The people we advocate for are those on the margins, relying on Centrelink benefits and on the lowest incomes. For them \$500 a year is a huge amount of money.

**The Hon. CATHERINE CUSACK:** Please expand on your proposal for a consumer committee to advise Professor Fels. Who would you envisage would participate in that?

**Ms HOWE:** Carolyn Hodge is an expert in that area and she has some ideas about particular stakeholders.

**Ms HODGE:** The concept is for an advisory group bringing in a range of expertise. We think consumers are important stakeholders in that group but we also think that experts, in the way the regulatory framework works, would strengthen the group. Obviously, they would need to include people with expertise in financial transactions. It is really about understanding how all of the interests work together in this space. For instance, if you were going into this process to maximise the least price, you may not recognise an issue that might be downstream, because the regulatory framework does not work in a particular way. By bringing all of that expertise together so they can discuss that in real time, you can uncover where there might be gaps, manage around those risks and come up with fixes. If that happens before the lease is proceeded with, we will get the best outcomes for people.

**The Hon. CATHERINE CUSACK:** This has been a consistent theme. Do both groups say that maximising the price is of concern?

**Ms HODGE:** No, that is not what we are saying. We are saying that that this could happen if, say, a financial sector expert with expertise in public sell-offs knew that a way to maximise process was X, Y, Z and did not think about how that might impact on the regulatory framework or how unpicking things might have impacts on consumers down the track. For example, when the Gentrader bundles were sold there was something called available liquidity damages and those prices were built into the model. That ended up generating quite a lot of costs. It gave the buyers some assurance and level of comfort but it also generated costs after those transactions. That is an example of just thinking about what happens now not what happens post lease as a result of the way that the transaction happens. If this is the case you may be surprised about the outcomes. We do not want any surprises.

**The Hon. ADAM SEARLE:** I refer to the focus on the sale price the Hon. Catherine Cusack was asking about. Typically, the sale price of assets like this is a multiple of the regulated asset base. If that is the case, your proposal for a write-down of the regulated asset base [RAB] would have downward pressure on the sale price. By the same token, a higher sale price would have some of those flow-on concerns for the consumers. Is that the case?

**Dr KUIPER:** It is not necessarily a straightforward trade-off. We understand that there are multiple factors that are taken into account by buyers of these kinds of assets. One of the issues, obviously, for any organisation looking to buy the New South Wales networks is whether there are stranded assets—as would be the case for anyone buying an infrastructure company. There is a perception of risk associated with the assets currently. It may be that, should the Government choose to look at write-downs and should they take that path, that would lower the risk for potential buyers. But lowering the risk would mean that they would increase the potential price that they were willing to pay, although not necessarily above the previous value of the RAB. It is a complicated equation that is not necessarily a trade-off between lowering the regulated asset base and the sale price. That is why we are calling for a discussion between the Government and potential buyers to see how that plays out, because it is not a straightforward trade-off and it needs to be looked at because of the ongoing consequences of leasing the networks with the current value of the RAB.

**Dr JOHN KAYE:** Dr Kuiper, you make comparisons between New South Wales and Victoria and talk about how much bigger the regulated asset base is in New South Wales. Is it not true that, first, New South

Wales has 3.4 times the land area of Victoria and, second, about half of New South Wales has fewer than one person per square kilometre in population density, whereas in Victoria only about 20 per cent of the State has low levels of population density? Likewise, you make comparisons with California, which comprises 425,000 square kilometres, whereas New South Wales comprises 800,000 square kilometres. California has three times—

**The Hon. TREVOR KHAN:** How does somebody answer a question like this when it becomes a speech?

**Dr JOHN KAYE:** I am trying to get to a point. My question is: Is it not true that in New South Wales it is more expensive to provide grid-connected electricity? We can have an argument over whether the State should be doing that not. But is it not true that it is inherently more expensive per connection in New South Wales than in Victoria or in California?

**Dr KUIPER:** The short answer to that is no, because obviously while we can look at the difference in land mass it really comes down to the density of the network. The vast majority of the electricity networks in New South Wales are in the greater Sydney area. So it is not a comparison about land area. Obviously there are significant areas of New South Wales with very long electricity networks and small numbers of customers, which is why they are paying the very high prices referred to earlier. We actually asked Mr Bruce Mountain to look at this as part of the report. He came to the conclusion that there was not a material difference in terms of geography that could explain the price differences between New South Wales and Victoria—and that it is the interaction between the regulatory system and the ownership that has resulted in these differences.

**CHAIR:** Your submission concentrates on protection for consumers. You have not come here to argue against any leasing proposal—I assume because of the Government's announcement during the election campaign that if it was re-elected then it would go ahead and do it—but are mainly concerned with that protection. You do talk about increased investment in consumer advocacy. Does the Public Interest Advocacy Centre [PIAC] get a grant the State Government?

**Dr KUIPER:** Yes, the work of the Public Interest Advocacy Centre in energy and water consumer advocacy is funded by the New South Wales Government. I believe the Chair might be referring to the submission from the Council of Social Service of New South Wales [NCOSS] which referred to an increase in funding. That was not in the submission from PIAC.

**CHAIR:** So you are not asking for an increase in your grant and you are happy with your current funding. How much funding does NCOSS receive from the Government?

**Ms HOWE:** We receive funding from a variety of streams but our submission has nothing to do with an increase to our core funding.

**CHAIR:** You said there should be increased investment in consumer advocacy.

**Ms HOWE:** Certainly, and that is aside from the role of NCOSS. What we are saying is that there should be some kind of investment to improve on a consumer advocacy role, but that is not asking for an increase to the funding of NCOSS.

**CHAIR:** Where would that investment go then? If the Government said it would do that, where would that increased investment go?

**Ms HOWE:** The Government could ask any organisation to do it. For example, PIAC could auspice that arrangement. NCOSS could auspice that arrangement or be the secretariat to create such an advocacy group. It is not a request for any increase to the funding we receive. We are just saying that there should be some kind of investment to ensure that there are consumer advocates who can actually provide some really sound advice if this lease goes ahead. That would be very helpful.

**CHAIR:** So you are suggesting that a consumer consultative group be set up and that it would require some funding to make it work?

**Ms HOWE:** Certainly, and I think it would go to being able to drive home where the unintended consequences could be avoided or to actually provide some feedback around what the impact may be, if any;

and also to push for those kind of things that we have been pushing for, which goes to your comment around how people are impacted, particularly in rural and regional areas—and that there should be a percentage based rebate rather than this flat rate. Those are the kind of issues that this body could look at when advocating for those who are doing it the toughest and giving them a voice.

**The Hon. CATHERINE CUSACK:** I think everyone on the Committee is very interested in strengthening consumer protection. One of the things you said to us is that there needs to be more funding for consumer advocacy. Is it possible, maybe via an answer on notice, for a tighter proposal to be put to the Committee around that? In terms of PIAC, what is your funding at the moment? As I understand it the Energy and Water Ombudsman NSW is funded by industry, is that correct?

**Dr KUIPER:** Yes, that is correct. So the industry participants pay to be members of the ombudsman scheme and that is funded by them. You could certainly ask the Energy and Water Ombudsman NSW for details of what the level of their funding is and whether they consider that to be adequate. But, yes, it is industry funded.

**The Hon. CATHERINE CUSACK:** I am more interested in government-funded or independent consumer advocacy. Could you describe the system at the moment and perhaps any thoughts you have as to how it could be strengthened?

**Dr KUIPER:** We have been very fortunate to receive New South Wales Government funding for many years—I believe it is 17 years—and that currently funds two positions. We are on a regular funding cycle with the Government in which we put in a proposal to Government about the scope of our advocacy work and it assesses that and provides us with funding should we continue to do good work.

**The Hon. CATHERINE CUSACK:** I think it is amazing what you do with two people. Could you consider how we could have an enhanced model for PIAC in terms of accountability and transparency? I have been reading the detailed reports for many years. PIAC has published documents and put forward arguments about matters that have never been made public. PIAC has just been doing that work in the background. It would be good to know how that could be enhanced.

**CHAIR:** I thank the witnesses for appearing before the Committee today and giving evidence and for their very helpful submissions. They have put a lot of work into those submissions and the Committee appreciates all that you do. For questions taken on notice the Committee has resolved that witnesses provide answers to questions taken on notice within three calendar days following receipt of the transcript.

**(The witnesses withdrew)**

**STEPHEN JULIAN KOUKOULAS**, Managing Director, Market Economics, affirmed and examined:

**CHAIR:** I welcome our next witness, Mr Stephen Koukoulas. Would you like to make an opening statement?

**Mr KOUKOULAS:** Yes, I would like to make a very brief statement on the broad issue and where I have looked at the privatisation of the poles and wires and other matters to that effect. Late last year I was the co-author of a report into the poles and wires privatisation. We looked at a range of different issues, including where the money would be going from the proceeds of the poles and wires privatisation.

**CHAIR:** Was that report for any particular person?

**Mr KOUKOULAS:** I sent the report through previously—

**CHAIR:** Yes, I have a copy of the report. Did you do that report for the Government?

**Mr KOUKOULAS:** No, it was done for the McKell Institute. It concluded a number of different things. Of course there are pros and cons for all public policy decisions, including privatisation. We came down on the side of the loss of recurrent revenue from the dividend payments from the entities that were proposed to be privatised leading to a shortfall over the medium-term in the revenue projections, much like the UBS report concluded prior to the election. The loss of revenue is something of a concern, particularly when you consider that all of the revenue from the poles and wires privatisation will be recycled into other assets so the level of government debt will remain unchanged after the whole process goes through.

We also looked at what happened in other States where similar entities have been privatised in recent years. We noted that their operating expenditure, as opposed to capital expenditure, increased slightly faster than those of the public entities. We made the assumption that privately-owned entities in New South Wales, if they faced similar operating expense increases, would therefore have to pass on some of those costs to maintain their profit.

I do not have any doctrinal objection to privatisation. Telstra, Qantas and the Commonwealth Bank were all very sensibly privatised by Federal Governments over the last couple of decades. But for a public monopoly type asset, which these electricity assets are, there are some other consequences to think about. What happens to your recurrent revenue from the loss of dividend payments? What happens to things like maintenance and ongoing costs?

One of the matters I heard discussed by the previous witnesses was the span of the poles and wires in New South Wales, which is much greater than in a state such as Victoria. There is just more land to cover in New South Wales. So getting the poles and wires out to places like Bourke and Wagga Wagga and around the State is much more expensive per person than it is in a small state like Victoria where there is a relatively dense population. Those are some of the issues we looked at in reaching our conclusions. On balance we thought that the negative aspects of privatisation outweighed any positives.

**The Hon. ADAM SEARLE:** I note in your opening submission you said that if the current State Government spends all of the proceeds of this transaction then the level of debt remains unchanged. Yet I see in the Government's submission it claims that the transaction will eliminate \$30 billion of debt. Can you address that?

**Mr KOUKOULAS:** Not really. The mechanics of that seem to be flawed. Of course one of the motivations for privatising the electricity assets is to free up cash—to get the cash in the door. Under the arrangement with the Federal Government in the asset recycling programs by definition the money has to be spent on other infrastructure for the Federal Government to pay the additional amount for asset recycling. So the amount of net State Government debt, once this goes through and the new infrastructure money is invested, in fact does not change over the medium term.

Sure, there is a sugar hit, if we can call it that, from the revenue that the privatised assets gives to the State budget. That is a big number; and we can debate what amount the assets will actually achieve. Yes, that does reduce debt immediately. That is correct. But once that money is recycled into road, rail and other

infrastructure—which is what the Government seems to be keen to do—then, at the end of the day, and that might still be a couple of years away, the level of net State Government debt does not change.

**The Hon. ADAM SEARLE:** Is it a sensible economic transaction to cash in assets that currently pay for themselves and provide a return to government and build new assets that cost money over the longer term?

**Mr KOUKOULAS:** That was one of the things we found when we did our report in December last year, and it was again reinforced by the initial UBS report—the electricity assets do generate a positive return to the State Government coffers; and the assets that are going to be invested in, road and rail, deliver a very low return. That does not mean there should not be money invested in road and rail. I am a strong advocate that the infrastructure programs need funding and need to be ramped up, and efficiency and productivity enhanced from those.

But the reality for the State budgetary position is that, as we all know, road and rail deliver a very low return to the State Government. So I think your point is very valid about what happens if this process of privatising electricity assets and building road and rail infrastructure goes ahead. Again it just reinforces the point that we are privatising an asset that delivers a solid, positive return to the State budget each and every year versus building assets that do not deliver any or deliver very little revenue to the State budget. All you have done is privatise electricity. You have built roads and rail but the return for the State budget is net negative.

**The Hon. ADAM SEARLE:** The State Government's presentation by the Premier suggested a slashing of the income from these State-owned companies over the next few years as a result of the Australian Energy Regulator determinations—to the point where the returns are said to be only \$150 million a year whereas they have recently been paying \$1.7 billion. This space is fairly contestable. But is it the case that if they are not making much of a return for the shareholder you would not get much for them if you sell them?

**Mr KOUKOULAS:** That is a really interesting point and, again, what somebody earlier said in discussion about overinvesting over recent years from the publicly owned entities is a curious one. Having worked in financial markets for 15 or so years of my prior existence in financial markets and dealing with investors, of course investors are only going to buy these assets, or any asset—it does not matter whether it is shares in BHP or the Commonwealth Bank or an asset that is proposed to be privatised—on a risk reward basis: what is the return they are likely to get from buying these assets?

Of course, if the regulated return, the AER regulated price increases and profitability, is severely curtailed, as suggested in the report that you just quoted, then an entity wanting to buy these assets will not pay you anywhere near as much as you are hoping to receive because obviously a more profitable, efficient entity is going to be worth a whole lot more to an investor than something that does not make much money.

**The Hon. ADAM SEARLE:** So if you are not getting much of a return you are not going to get much of a sale price but, equally, if you can get a good sale price the chances are the revenue stream will remain strong.

**Mr KOUKOULAS:** Yes. Again, the people who are going to be buying this asset, or any other assets for that matter, do their homework pretty well—it is a big-ticket item; we are talking tens of billions of dollars of investment here of their money or their fund managers' or their clients' money. They are wanting to be pretty sure that the return they get on that is a decent return for the investment that they are undertaking.

**The Hon. ADAM SEARLE:** Have you reviewed the Deloitte Access Economics report titled "Economic Impact of State Infrastructure Strategy—Rebuilding NSW"?

**Mr KOUKOULAS:** I did sometime ago, yes.

**The Hon. ADAM SEARLE:** Do you have any comments on the methodology and findings of that report?

**Mr KOUKOULAS:** I confess it was a little while ago that I read it, but my recollection is that they did not take much account of the span issue that I mentioned in my introductory comments, that they looked at a very simple formula that had the profitability of privatised entities in other States and compared that to the publicly owned ones in New South Wales, and what they failed to take account of was that very point that I mentioned—the span of the network, the number of thousands of kilometres of poles and wires—and that does



change the way that the cost structure works. Whether that is publicly owned or privately owned, it is a very simple formula, to my way of thinking, that if you are covering more people over a significantly greater physical geographic area, the cost of providing electricity to a small number of people in outback New South Wales, let us say, is going to be high. But that is where cross-subsidies come into a publicly owned entity; that is where the utility companies have cross-subsidies.

We are a fair and decent society; that is why it costs the same to send a letter down the street here or to send a letter from here to Karratha or somewhere like that. There are cross-subsidies involved but we are one economy, and I think that is where utilities have an advantage. So I think that is one of the flaws that they fail to take account of with their report.

**The Hon. ADAM SEARLE:** The report also forecasts over the next 20 years a \$30 billion annual uplift in GSP and an accumulative \$300 billion increase in GSP, and there is all sorts of detailed reasoning. How sound are those long-term projections over the next 20 years?

**Mr KOUKOULAS:** They are only as good as the assumptions you put into your economic model. If I can answer it this way: I will take a step back, if you like, because I think this is a really important thing. My view of whether it is important for a State government or the Federal government, for that matter, to build a road, to build extra railway kilometres, to build an airport, should not be based on modelling that is, let us say, using some less favourable modelling techniques or inputs. If it is worth doing, let us invest in them, let us build them, let us have our infrastructure program determined, not by whether we sell other assets to pay for it, but build this infrastructure because it is good for the productivity enhancing part of the economy.

I think some of the Deloitte Access material was sound, that if we do build better roads, if we do build better rail systems and when we get the Sydney airport up and running—all these other positive infrastructure issues that are happening in New South Wales, and that is really good news; I am a huge fan of infrastructure, it is so important for our national and State wellbeing—yes they are productivity enhancing, it is as simple as that, but they are not dependent, or they should not be dependent on selling other assets to pay for it, necessarily. So, again, the question of whether we should be building road X, Y, Z or extending the rail line A, B, C, they should be treated on their own merits, and if they do add to productivity, then let us go and build them. I think that is the critical point.

**The Hon. ADAM SEARLE:** Despite the range of subject matters dealt with in the Deloitte Access report, there was no analysis about the impact of the transaction on the State budget. Is that a notable omission? Why would that have been missing from the report, do you think?

**Mr KOUKOULAS:** I do not know why it was missing but it is a huge omission because, again, even if we make relatively conservative assumptions there are going to be many hundreds of millions of dollars lost from the recurrent revenue from the State budget once these entities are not owned by the public sector. There is also this other issue, which is very important: in the report that I co-authored we did look at how the credit rating agencies viewed the financial position of each of the States. They actually gave a very low weighting to the level of debt; it was only, I think, 10 per cent, on how they assessed whether a State has triple-A or double-A plus, or however they did their credit rating—the level of government debt was actually very low. It was the sustainability of the budget that got, I think, a 20 per cent weighting.

**The Hon. ADAM SEARLE:** And what goes into that metric, the sustainability of the budget?

**Mr KOUKOULAS:** Ongoing revenue. I do not want to go on too much of a tangent, but this is where the GST argument is so important at the moment, particularly with our friends in WA. But it is also an issue that will inevitably come and be important for the New South Wales State Government, not just today or tomorrow but in the next few years. It is a really important issue in that—perhaps the Committee members know more than I do—there is a very limited number of sources that a State Government can raise revenue through tax. There is a very limited source of tax and the State governments have to rely on the Commonwealth to distribute tax revenue to them.

**The Hon. ADAM SEARLE:** Just to use that line of reasoning: giving away a stable and rich revenue source such as the State-owned energy companies or other solid and long-term revenue sources such as, for example, the IGA taxes, that would also feed into a potential negative ratings agency experience because of the sustainability question?

**Mr KOUKOULAS:** Correct, and if there is no offset to revenue, yes, that is the point. I think I touched on that earlier saying that if you are investing in infrastructure that delivers a lower return, even if it is worthy infrastructure but it just happens to deliver a lower return to the State government budget each year, then by definition you have either got to look for other sources of revenue to balance your budget and maintain your triple-A credit rating, if that is your objective, or be aware that in a couple of years' time—this is where I cannot be specific with the time it takes—in a few years' time when you lose the revenue from dividends and other payments from the publicly owned entities, the budget position is worse, and that does feed into the credit rating agencies' assessment of the credit worthiness of the State.

**The Hon. ADAM SEARLE:** So losing revenue sources could be more damaging than reducing debt, for example?

**Mr KOUKOULAS:** In terms of the credit ratings yes; it is as simple as that, yes.

**Dr JOHN KAYE:** Thank you, Mr Koukoulas for your report. Can I take you to page 13 of that report, your finding number two: "Privatising NSW's Transmission and Distribution assets is likely to drive up prices due to higher overheads in comparable privatised businesses". Can you explain how that works with respect to the Australian Energy Regulator's pricing mechanisms?

**Mr KOUKOULAS:** I touched on it in my opening remarks that we looked at the operating costs of other entities that have been privatised over recent years in other States and saw that their operating costs rose more rapidly than the public sector entities.

**Dr JOHN KAYE:** Are you talking about the opex that was allowed by the AER or just their operating costs?

**Mr KOUKOULAS:** No, it is not linked to the AER; it was just their operating expenses. We put that down to things like perhaps executive remuneration was a little higher, perhaps there was a stronger marketing in advertising budgets, because, again, it is more competitive. One of the issues to remember about the private entities is that there is more competition; we are seeing sponsorship and advertising now from many of these entities as well. So we put it down to those sorts of drivers of cost.

**Dr JOHN KAYE:** As a driver of cost but in terms of what is allowed in determining prices, how does that interact with what is allowed to determine prices by the Australian Energy Regulator?

**The Hon. TREVOR KHAN:** Revenue, not prices.

**Dr JOHN KAYE:** Revenue, I should say revenue, yes. The AER allows a certain revenue to be recovered.

**Mr KOUKOULAS:** Sure.

**Dr JOHN KAYE:** It is not necessarily directly connected to costs.

**Mr KOUKOULAS:** No, and again this is where capital expenditure comes into the mix. One of the things, again, is that the maintenance costs of the poles and wires is high and, of course, is a legitimate expense. In fact, it is something that I think most people would want money to be spent on—we do not want blackouts, we do not want dangerous poles and wires around the countryside. So I think it is important that the price of regulation—and, in a sense, I think you are touching on another point which, if you like, comes home to the price that will be attained if the assets are privatised: that if an investor sees these sorts of constraints on them being able to recover their costs, whatever the source of costs is, whether it is opex or capex, then of course the price they are going to be willing to pay for these entities will be somewhat lower.

**Dr JOHN KAYE:** That brings me to my next question. The AER, as you know, has significantly reduced revenue, the allowable both opex and capex and the rate of return on the asset base for these three entities. What impact do you think that will have? Have you made any assessment of what you think that will do to the purchase price for the leases?

**Mr KOUKOULAS:** It was not within my sphere of knowledge or expertise to work out how much these assets would be worth other than to make a very simple observation from economics and from financial

markets that if the expected return is lower for any reason—whether it is a regulatorily imposed price cap or limited to the price—then the price that the investor will be willing to pay for it will be lower than otherwise. We have not, in our scope of study and knowledge, worked out whether the entities are worth 11, 13, 18, 20 billion dollars; we have left that to the experts in financial markets.

**Dr JOHN KAYE:** In all the things you have said in your report, do you see any difference between a 99-year lease and freehold?

**Mr KOUKOULAS:** Probably for the next 95 years no.

**Dr JOHN KAYE:** And how old will you be in 95 years?

**Mr KOUKOULAS:** Too old. For all intents and purposes, no. I live in Canberra; we are aware of the 99-year lease on—

**Dr JOHN KAYE:** Land.

**Mr KOUKOULAS:** —on land, on real estate, on your own house, and some of those things are coming up in the next 30 or 40 years. But I think the local government there is simply extending it. We are not going to have to buy our land again in Canberra. So I would imagine in 99 years' time, whoever owns these assets will have them renewed. I cannot imagine any other way.

**The Hon. ROBERT BORSAK:** Why is it, in your view, the publicly owned transmission and distribution networks would be better at planning than investing in long-term capex requirements for a network like this?

**Mr KOUKOULAS:** It comes back to this issue where on a utility such as these there is not quite the same profit motive. While the publicly owned entities are run on a commercial basis, of course—and they do have a huge incentive to keep their costs under control, to return a dividend to the State government each year, and that is the way it should be, in my view—they are perhaps a little more responsive and have a slightly different profit motive to a privately owned entity, and, again, this may come back to the other issue about over-investment over previous years. So there is this case that you get the publicly owned entity being a bit more responsive to changes, a bit more responsive to requirements.

If you take a step back and think well, we know that New South Wales' population is increasing by roughly a million people every six or seven years, and where they live and where they work will require electricity—of course it will. So we know that the capacity of the electricity generating companies in 10 years' time, for example, or 20 years' time, will be looking after two million, three million, four million, five million more people and will require an increase in output. I am not getting into a discussion about renewable energy versus the current scene, but I daresay a publicly owned entity would be a little bit more inclined to anticipate that growth and build their capacity early—this is where some of the criticism of gold-plating and those sorts of things come in. On the other hand, a private entity may be reluctant to do that and instead have a slightly shorter-term focus on current profitability rather than undertaking the capex and hurting their "shareholders" in the short term.

**The Hon. ROBERT BORSAK:** Given the recent end to the large-scale investment in capex in New South Wales, what would the impact of this recent investment to future profits and prices be for a privately owned transmission and distribution owner?

**Mr KOUKOULAS:** You are talking about the build-up of capacity over the last few years or "excess capacity", if you like?

**The Hon. ROBERT BORSAK:** Yes.

**Mr KOUKOULAS:** That tells me that the entities have an ability to absorb the thing I just mentioned about population growth and new industries being developed that inevitably by definition will use electricity. There is the capacity to expand perhaps without a near-term need for extra capex. In a sense, that would suggest that if we have had a period of overinvestment in these entities—if that is in fact the case—then perhaps the short-term capex will be more on than maintenance than expansion.

**The Hon. ROBERT BORSAK:** But it might be that less maintenance is needed because you have done that already?

**Mr KOUKOULAS:** Correct, you have done it already and you have built the capacity. We did not drill down to the operations of these entities to that sort of degree other than to note that if there is spare capacity it is not necessarily a bad thing given that we do know that immigration is high, natural increase is high and population growth is high.

**The Hon. ROBERT BORSAK:** Perhaps it also increases the short-term price for the assets?

**Mr KOUKOULAS:** Indeed. You are buying a better asset that is gold plated, for want of a better phrase, than buying one that will be in desperate need of capex soon. Yes, it could do.

**The Hon. ROBERT BORSAK:** Therefore, you are increasing the future flow of discounted cash flows and therefore being able to increase the price or get a better price?

**Mr KOUKOULAS:** Potentially, but again this comes to an issue that is outside the scope of my knowledge and work, which is if we have had a build-up in capacity that will never be used again. That could be because of a drift to renewables, for example. I have not got the knowledge to answer that properly. If we do find over the next 10 years that these extra couple of million people living in New South Wales are using electricity supplied all by renewable energy then perhaps the spare capacity that is currently there will never be used. That is a pity. It is a dead asset. Again, the people who will be buying these entities or who will be making bids on these entities will be clearly taking account of all these sorts of things when they work out how much to pay.

**CHAIR:** In your submission you are very critical of previous studies and say:

Regrettably, previous studies that have found in favour of electricity privatisation haven't undertaken the necessary depth of analysis ...

You repeat that criticism elsewhere, saying that they have overlooked the physical span associated with each network. Which research bodies do you feel were faulty in their study approach?

**Mr KOUKOULAS:** It was the Deloitte Access Economics report. It was also some of the State Government work that was done approximately a year ago. Coming to the point of that concern, having looked at economics and economic modelling in a whole different range of things over the years I know that it is important to get the scope of the study correct. It is important to realise for example—apologies if I am repeating myself—that account is taken of the geographic span, the physical span, of the network.

It is important to realise the extent to which there are some cross subsidies involved in a very large State such as New South Wales that has a very tight concentration of population, which is obviously in Newcastle, Sydney and Wollongong in particular, where it is very cheap to provide electricity to one of 100 units in a tower block. On the other hand, to provide electricity to 100 people living along a 100-kilometre road going out to Bourke again as an example is really expensive. The cross subsidies were not taken account of in the previous studies when it came to the findings of particularly the Deloitte Access study where per capita the publicly owned entities were more expensive in providing their services compared with the privately owned entities in Victoria. Those entities have a much tighter population, even with medium-sized towns such as Ballarat and Bendigo that are servicing quite a lot of people without the requirement of thousands of kilometres of poles and wires.

**CHAIR:** Does the Government's proposed leasing of transmission include Bourke?

**Mr KOUKOULAS:** I am not sure on that one.

**The Hon. CATHERINE CUSACK:** Central New South Wales is out of it.

**Mr KOUKOULAS:** But these previous studies took account of the whole cost.

**CHAIR:** You understand the transmission proposal excludes those areas, so that is why they would not be considered in the other studies?

**Mr KOUKOULAS:** Sure, but even if you take account of the geographic area maybe not quite as far as Bourke—maybe that was not the right city to be referring to—the poles and wires make the cost expensive to provide electricity wherever they happen to be, and Victoria has a much tighter density of population.

**The Hon. ADAM SEARLE:** But the transmission system is Transgrid.

**Mr KOUKOULAS:** The transmission system, that is correct.

**CHAIR:** When the Labor Government was considering this same proposal even as far back as to former Premier Carr did the McKell Institute make submissions to it?

**Mr KOUKOULAS:** I do not know. I am not sure.

**The Hon. ADAM SEARLE:** I do not think it existed at the time.

**Mr KOUKOULAS:** Not to my knowledge, no. I do not know.

**CHAIR:** So you were not involved in any of those previous discussions?

**Mr KOUKOULAS:** No.

**CHAIR:** Are you surprised by the Labor Government being so enthusiastic at different times under different Premiers based on your report to us?

**Mr KOUKOULAS:** As I said at the outset, I approach each of the policy proposals that I look it—be it privatisation or GST reform or whatever—with an open mind. Inevitably, having worked in government in Treasury and other places, it is almost never the case that a policy change is black and white. It is never 100 per cent simple or 100 per cent against it. There are always issues of debate with caution and compensation for people who will lose out. I do not mean to go off on a tangent but even with privatising the Commonwealth Bank a couple of decades ago, while I was a strong advocate of privatising the Commonwealth Bank the Commonwealth Government did lose, if you like, the revenue stream that would have been paid from dividends from the Commonwealth Bank. But unquestionably it was more efficient to have a bank run by a privately owned company than have the government still running the Commonwealth Bank.

On the poles and wires issue, while my evidence may appear to be a bit strong way one or the other, it is not all bad to privatise. It is not the worst decision that could ever be taken. On balance, we found that there were more cons than pros, if you like, in the proposal. Perhaps other people previously—I cannot speak for them of course—put a higher weighting on some of the other issues. Perhaps the price they would have got five or seven years ago was higher than the price today, so that would change it. For example, if someone said to me that we could get \$50 billion I think my view would change.

**The Hon. Dr PETER PHELPS:** Do you agree with former Prime Minister Julia Gillard when she said:

In many places around Australia, the state governments both own lucrative electricity assets and regulate parts of the electricity market.

At the heart of all this is a simple market design problem: A clear regulatory incentive to over-invest in infrastructure and pass on costs to consumers.

Do you agree with that?

**Mr KOUKOULAS:** I am not sure whether I agree or disagree because it is a sweeping statement to be sure. The incentive for publicly owned electricity providers is to make sure that nobody experiences brownouts or blackouts, or that it is kept to a minimum. To be sure, the incentive is arguably as a result of that comment to be investing more, again the so-called gold plating. But when the alternative is bronze plating—I am not sure what the opposite of gold plating is—of under investment and you run into blackouts and brownouts periodically that is certainly something that I think most people would disagree with.

I recall seeing a very recent poll. I cannot remember if it was by Essential Research or someone else. It asked people if they would prefer to pay a little bit more for electricity and guarantee that they never had a

blackout or if they would prefer to have a slighter cheaper electricity bill but run the risk that at peak demand during summer they would inevitably have a blackout. It found people would prefer to pay a little bit more.

**The Hon. CATHERINE CUSACK:** Can you please give us that poll because I would love to see that. Did it say they are happy to pay \$500 a year more, for example?

**Mr KOUKOULAS:** I will have to take that on notice but I will certainly get back to the Committee if that is okay. I do not have it at my fingertips.

**The Hon. Dr PETER PHELPS:** Do you agree with former Prime Minister Julia Gillard when she said:

Fifty per cent price increases in many states over four years – linked to demonstrable inefficiencies in resource allocation in the market.

Or in this state, New South Wales – nearly seventy per cent increases.

With half the extra cost due to increased network charges.

Do you agree with her when she linked the price increases to demonstrable inefficiencies in the market?

**Mr KOUKOULAS:** I do not think that is right. The fact that the firms are able to be paying a decent dividend year in, year out and the fact that there is this spare capacity in the system suggests that they are either preparing for an increase in demand over time or that they are meeting their current obligations.

**The Hon. TREVOR KHAN:** If the Australian Energy Regulator [AER] has proposed a reduction in the revenue streams of let us say 28 per cent or thereabouts because of what they have identified as featherbedding in the market as compared with the Victorian distributors—

**The Hon. Dr PETER PHELPS:** "Inefficiency in opex" was the term they used.

**The Hon. TREVOR KHAN:** Yes. How does that stand with your evidence that the motivator of electricity prices in New South Wales is the span of the network?

**Mr KOUKOULAS:** Sorry, what is the question?

**The Hon. TREVOR KHAN:** The AER is clearly saying, is it not, that the network in New South Wales is being inefficiently run and deserves a 28 per cent reduction in revenue streams? How does that sit with your report?

**Mr KOUKOULAS:** Our report simply looked at what happened in the entities that were privatised in other States and saw that operating expenditure rose faster than in public entities. It is as simple as that. It is laid out in the report quite clearly that there was a faster rate of increase in operating expenditure in privately owned entities as opposed to publicly owned entities. That does not take account of whether there are inefficiencies in the private sector firms, which presumably there are as well. We have all learnt from the global financial crisis that private sector entities are not immune from making mistakes in terms of their operations. That is one of the classic issues of this silly debate we have every now again that private sector owned companies are better than publicly owned entities.

**The Hon. TREVOR KHAN:** I am not suggesting that. But the AER is clearly benchmarking against the Victorian distributors and saying that the Victorian distributors are 25 per cent or thereabouts more efficient than the New South Wales distributors. That is in complete contradistinction to your report, is it not?

**Mr KOUKOULAS:** I do not think it is in complete contrast. If there is a greater efficiency in the privately owned entities it has not shown up in the cost of their operating expense growth. It is the operating expense growth I am referring to, not the levels. The operating expense growth has been much higher in the private sector entities. It is as simple as that.

**The Hon. CATHERINE CUSACK:** Did you look at transmission? Is the problem here that your evidence is about something else? Because the AER has given us the opposite evidence to the evidence you are giving us today. You are saying that their costs have increased relative to New South Wales, which is the

opposite of what the AER is saying. I am just wondering if the confusion is that you have looked at different assets.

**CHAIR:** And the cost to consumers went down.

**Mr KOUKOULAS:** I think we are looking at the same assets. It is in the report. Within the tables there are some very clear examples of the cost of the privately owned entities in States such as Victoria increasing their operating expenses faster than publicly owned entities.

**The Hon. CATHERINE CUSACK:** Are you talking about transmission entities?

**Mr KOUKOULAS:** The range of entities that we covered, yes.

**The Hon. Dr PETER PHELPS:** In your report on page 13 you claim:

Privatising NSW's Transmission and Distribution assets is likely to drive up prices due to higher overheads in comparable privatised businesses:

But last week this Committee heard from Professor Quiggin and Richard Denniss, who claimed that prices would be unlikely to be any different under private or public operations. Are you correct, or are Professor Quiggin and Mr Denniss correct?

**Mr KOUKOULAS:** The difference is only relatively small. I think over five years the extra cost was \$350 over five years so what is that?—\$70 a year, or \$1.20 a week. That is the difference that we found in our methodology.

**The Hon. Dr PETER PHELPS:** Do you believe it is possible that the private sector could look at the operational expenditure of a public sector company and believe that they could do better?

**Mr KOUKOULAS:** Of course, yes. That would be one of the motivations for buying it; that they come in and, if you like—

**The Hon. TREVOR KHAN:** Run it more efficiently?

**Mr KOUKOULAS:** Run it more efficiently, well, of course.

**The Hon. ROBERT BORSAK:** Asset strip it.

**Mr KOUKOULAS:** They may see that as the motivation. Whether they can do it or not is another question. Again, we have seen the private sector fail on that so many times, but they may succeed on this.

**The Hon. Dr PETER PHELPS:** But if they believe they can do it, would they not be likely to pay a premium over the nominal price of the company under existing arrangements? If a company is being run by the Government inefficiently, as the Australian Electricity Regulator [AER] seems to indicate it is in New South Wales, and the private sector believes it could do it more efficiently, why would they not pay a premium for that?

**Mr KOUKOULAS:** Yes, indeed. That would be the case, yes.

**The Hon. Dr PETER PHELPS:** Do you agree with the Productivity Commission when it states:

Government ownership produces perverse interactions with the existing [regulatory] Rules [for transmission markets], which ... lead to overinvestment and ineffective cost controls.

That was in its April 2013 report.

**Mr KOUKOULAS:** I think that the observation from the entities as they currently provide dividends to the State Government suggest that they are making money as it is. Again, the question of whether they are more efficient, I keep coming back to—and thank you for providing a copy of the report. If you go to figure 15 on page 45 of the McKell report, you can see the background of the work that we were doing where the

privately owned entities have a higher cost. Now, it may not show up in the black-and-white graph as clearly, but that was the basis of our findings on that.

**The Hon. Dr PETER PHELPS:** Just as a follow-up to that, Mr Koukoulas, have you seen the April 2015 AER benchmarking fact sheet, which indicates that all of the State-owned electricity transmission distribution networks have low efficiency scores in relation to operating expense [OPEX]? Do you agree with that? If you do not agree with that, what are the analytical faults in AER's report?

**Mr KOUKOULAS:** I have not seen that fact sheet, no.

**The Hon. Dr PETER PHELPS:** You have not seen this?

**Mr KOUKOULAS:** No.

**The Hon. TREVOR KHAN:** In regards to the McKell Institute report that, I take it, authored—

**Mr KOUKOULAS:** Co-authored, yes.

**The Hon. TREVOR KHAN:** Who commissioned that report?

**Mr KOUKOULAS:** The McKell Institute. That is who I dealt with.

**The Hon. TREVOR KHAN:** And the Electrical Trades Union [ETU] commissioned the McKell Institute?

**Mr KOUKOULAS:** You would have to ask the McKell Institute. I do not know.

**The Hon. CATHERINE CUSACK:** Do you not know?

**Mr KOUKOULAS:** I do not know with certainty, no.

**The Hon. DAVID CLARKE:** Do you believe it to be so?

**Mr KOUKOULAS:** I would assume it is correct, yes. I would assume, yes.

**CHAIR:** They could have asked the board, the McKell board.

**Mr KOUKOULAS:** Yes. I dealt with Sam Crosby from the McKell Institute and did all of my liaison through him.

**The Hon. TREVOR KHAN:** In regard to the preparation of the report, did you see the final report itself when it was printed up?

**Mr KOUKOULAS:** The McKell report?

**The Hon. TREVOR KHAN:** Yes, the McKell report.

**Mr KOUKOULAS:** Yes. Of course, yes.

**The Hon. TREVOR KHAN:** So when it, for instance, has in the summary section that New South Wales consumers—I am quoting from a highlighted area on page 13.

**Mr KOUKOULAS:** Page 13, thank you.

**The Hon. TREVOR KHAN:** It states:

The average NSW customer is likely to end up paying nearly \$350 more due to higher overhead costs resulting from privatisation.

**Mr KOUKOULAS:** Yes. Over five years, yes.



**The Hon. TREVOR KHAN:** Well, that is not what it says, is it? Where is the "over five years"?

**Dr JOHN KAYE:** It is a dropout quote.

**The Hon. TREVOR KHAN:** That is right, but were you not left a bit uncomfortable that what is in the highlighted areas, the publicity grabs—

**Mr KOUKOULAS:** It did not get a lot of publicity, though.

**The Hon. TREVOR KHAN:** —are at best misleading?

**Mr KOUKOULAS:** It is not misleading. It is a statement of the findings of our report. It is not misleading—I have mentioned the methodology to you; I have shown you how we achieved that number. We used the last five years of growth in the operating expenses of the privately owned entities in the other States and compared it to the growth rate in the other States, so that over the course of the next five years—

**The Hon. TREVOR KHAN:** This is a report that was prepared in the lead-up to an election so it could be dumped in a misleading way on the public, was it not?

**Mr KOUKOULAS:** No. It was meant to inform the public, and other people interested in the whole process including people at UBS, obviously—who followed a very similar approach to what we found, interestingly enough—that the issue of privatisation is not black and white. There are issues associated with operating expenses of a privately versus publicly owned entity. Previous research, as the Chair of the Committee here found out and asked me previously, did not take account of physical span and those sorts of issues. It was meant to be an additional debating point.

**The Hon. ADAM SEARLE:** I believe that is known as time.

**The Hon. Dr PETER PHELPS:** How do you account for South Australia? South Australia has lower transmission costs—

**CHAIR:** Can members put any further questions on notice?

**The Hon. Dr PETER PHELPS:** —and lower network costs and it is of a comparable size to New South Wales and is arguably—

**Dr JOHN KAYE:** Point of order.

**The Hon. ADAM SEARLE:** In fact, it has the highest electricity prices in Australia.

**CHAIR:** Dr Phelps?

**The Hon. Dr PETER PHELPS:** Are you talking about transmission or retail?

**CHAIR:** The witness' time has ceased.

**The Hon. ADAM SEARLE:** I am talking about the price people pay.

**The Hon. Dr PETER PHELPS:** Yeah, yeah.

**The Hon. TREVOR KHAN:** That is enough.

**Dr JOHN KAYE:** I am with Mike Baird on this: I am bored.

**CHAIR:** The Committee can have a discussion, but not while the witness is present. We thank you very much for supplying us with your report and for your attendance as a witness. We appreciate that very much. Thank you.

**Mr KOUKOULAS:** Thank you. I appreciate it too. Thank you very much for the opportunity.

**(The witness withdrew)**

**(Short adjournment)**

**SANDRA JOBSON DARROCH**, Author, sworn and examined:

**CHAIR:** Thank you very much for coming here to give us the benefit of your knowledge. We appreciate it very much. It is not often that someone who writes a book, an author, becomes a witness.

**Ms DARROCH:** I am a former journalist still working as an author and I have just written this book, *Power for the People*. It is the history of electricity in Sydney and New South Wales, starting in 1770 and ending in 2015.

**CHAIR:** You have mentioned your book. Is there anything else you wish to say as an opening statement before we ask questions?

**Ms DARROCH:** Yes, I would just like to make a brief introduction to put myself and my book in the picture. As I said, my name is Sandra Jobson Darroch. I am a graduate of the University of Sydney and have been a journalist for over 40 years. I was the first woman reporter on general news at the *Sydney Morning Herald*. I am the author of seven books and I currently run an internet and publishing company with my husband, Robert Darroch. I have spent the past 20 years researching the history of electricity in Sydney and New South Wales. My book is called *Power for the People: An (uncensored) story of electricity in Australia: 1770-2015*.

The book starts in 1770 because electricity first came to our shores aboard Captain Cook's *Endeavour* when Joseph Banks and Daniel Solander experimented with electric shocks using a Leyden jar. The book then moves on to the late nineteenth century and the turn of the twentieth century with the formation of the electricity undertaking run by the Sydney Municipal Council, which first lit the streets of Sydney in 1904. I then follow the story of the undertaking through its later developments as the Sydney County Council, then Sydney Electricity, EnergyAustralia, and so on to the present day.

I conclude the book with a brief look at the many new forms and methods of power generation which are currently transforming the energy sector in Australia and the rest of the world. The book covers the many great achievements of the undertaking and its successors but my research also uncovered an endemic stain of corruption and union and political interference which has scarred and marred the development of electricity in Sydney and has also hurt the consumer.

As I delved into the old records, interviews with entities and other electricity workers, read reports from royal commissions, productivity commissions, annual or company reports and ICAC inquiries, I came to a carefully reasoned conclusion that the quicker the so-called poles and wires are leased and thus partially privatised the better the consumer will be the beneficiary and I would like to say that I have tabled a longer submission.

**CHAIR:** Thank you very much. Under our procedures members will now ask questions.

**The Hon. ADAM SEARLE:** Ms Darroch, of your eight-page submission, only the last page seems to deal with the present circumstances of the privatisation proposal that we are now wrestling with. How does your information help us evaluate whether the privatisation proposal, as advanced by the Government, is value for money for the community?

**Ms DARROCH:** Because my research showed that right from the very start, and even before the electricity undertaking was formed, there has always been a pervading atmosphere of featherbedding, of a certain degree of corruption, not always by the Left but sometimes by the Right, and it gave me the very strong conclusion, after I looked at all the different manifestations of the electricity authority over these years, that public organisations are not very good at running things like electricity. The engineers that I spoke to and past engineers who resigned because they could not put up with the political pressure and the union pressure—all of them would have said that they would have liked to get the politics and the union influence off their backs so they could get on with producing electricity cheaply and effectively.

**The Hon. ADAM SEARLE:** But none of the information that you advanced here this morning seems to relate to the present industry or the present entities that are undertaking the electricity operations here in New South Wales; you seem to be talking about the Depression, the Second World War and going back further. None

of the comments you are making about allegations of corruption, apart from one mention of an ICAC hearing involving Ausgrid—

**Ms DARROCH:** If you like, I could table this book as well because it goes on, right up to the present day. Perhaps I did not say too much about that in the submission but the book covers the lot.

**The Hon. ADAM SEARLE:** We are here to try to come to terms with the current Government's existing privatisation proposal and to work out whether or not it is in the public interest, from all of its different facets, but apart from this interesting historical analysis do you have anything to tell us about the existing situation in the existing State-owned corporations that form the electricity undertakings of this State, as at today?

**Ms DARROCH:** I do not quite understand what you want me to answer.

**The Hon. ADAM SEARLE:** I am just trying to work out whether any of what you have to say is relevant to our deliberations, Ms Darroch? It does not seem to me that they are.

**Ms DARROCH:** I think that everything, I would say, is relevant because I am trying to give a picture of an underlying atmosphere and culture of jobs for the boys and featherbedding, inefficiency, that have gone on right from the very start right up to the present day, I would say.

**The Hon. ADAM SEARLE:** You would say, but you do not have any evidence of that?

**Ms DARROCH:** Well I have evidence, yes, but I have not put the evidence into that submission necessarily.

**The Hon. ADAM SEARLE:** Okay.

**Dr JOHN KAYE:** Thank you, Ms Darroch, for coming here today. Would it be fair to say that the history of corruption that you point to occurred largely before the State Owned Corporations Act, occurred largely before the Independent Commission Against Corruption and occurred largely before the New South Wales Police Force was substantially, though not entirely, cleaned up?

**Ms DARROCH:** No, I would say not. In fact, I have a list of many of the inquiries that ICAC has conducted since 1996 onwards right up to the present day. I just did not put them into my submission but I have got the list. If you want me to table them as well, I will do so, or I can read them out, if you like.

**Dr JOHN KAYE:** No, please do not read them out, but I would like you to table that list.

**Ms DARROCH:** ICAC has been constantly and continuously investigating allegations of corruption in the electricity industry.

**The Hon. ADAM SEARLE:** Across the whole of the public sector.

**Dr JOHN KAYE:** Across the entire public sector?

**Ms DARROCH:** Yes, and into the electricity industry.

**Dr JOHN KAYE:** And you do not think that the advent of ICAC and the change in the relationship between the State Government and State-owned corporations through the State Owned Corporations Act in the mid to late 1990s have had a substantial impact on the level of corruption?

**Ms DARROCH:** I think that a lot of corruption goes on and always has gone on below the surface of something like ICAC, so I cannot tell you very specifically—

**Dr JOHN KAYE:** You do not mean in ICAC? I presume you mean without ICAC protecting it?

**Ms DARROCH:** No, I am trying to say that ICAC only really sees the tip of the iceberg of what goes on.

**Dr JOHN KAYE:** Do you have evidence of corruption that ICAC has not yet investigated?

**Ms DARROCH:** I have no evidence that I can specify at this moment. I am just trying to say there is a culture of that. It has been there and it has been right from the very beginning.

**Dr JOHN KAYE:** Sorry, Ms Darroch, to be clear—

**The Hon. TREVOR KHAN:** Can you not interrupt the witness while she is answering?

**Dr JOHN KAYE:** Sure, if you do not interrupt me, I will do the same for the witness. Will you please continue.

**The Hon. TREVOR KHAN:** I will take it as a formal objection. Let her answer the question.

**Dr JOHN KAYE:** Continue, Ms Darroch.

**Ms DARROCH:** Right from the very start, the Sydney Municipal Council, before the electricity undertaking, there was a going rate that the aldermen would get in order to give a contract to someone who was going to lay a road and then it went on and on right through. Most of that—

**Dr JOHN KAYE:** If I may interrupt you.

**CHAIR:** She is answering your question.

**Dr JOHN KAYE:** Actually she is not. If I may, I am only interested in current data from the past three or four years. Do you have any evidence of corruption that has occurred in any of the State-owned undertakings during the past four years that has not been detected or investigated by ICAC?

**Ms DARROCH:** No.

**Dr JOHN KAYE:** Thank you. Are you aware of Enron, the company in the United States that was, amongst other things, involved in utilities?

**Ms DARROCH:** Sorry, what?

**Dr JOHN KAYE:** Enron?

**Ms DARROCH:** Yes.

**Dr JOHN KAYE:** I should say the former company Enron; it has now been wound up. Are you aware of the impact that Enron had on utilities, particularly Pacific Gas and Electric and Southern California Edison, in the early 2000s in the United States?

**The Hon. Dr PETER PHELPS:** Point of order: I do not see how a question about Southern California utilities could possibly be within the remit of the inquiry into the leasing of electricity infrastructure in New South Wales.

**Dr JOHN KAYE:** To the point of order: We had evidence from an earlier witness about Californian utilities. If I may be allowed to continue, I will get to the point.

**CHAIR:** It seems to be outside the remit of the inquiry.

**Dr JOHN KAYE:** The witness has alleged corruption. She is connecting it to public sector ownership. I am asking the witness about corruption that occurred under entirely private sector ownership in the United States.

**The Hon. CATHERINE CUSACK:** That has got nothing to do with the Government's proposal.

**CHAIR:** That is not her specialty.

**The Hon. ADAM SEARLE:** Alleged corruption in the power industry is.

**Dr JOHN KAYE:** Further to the point of order—

**The Hon. CATHERINE CUSACK:** It is not even a dotted line.

**Dr JOHN KAYE:** The witness is alleging that the problem with the undertaking of Sydney County Council and its successors is that they are all publicly owned and it will be cured by privatisation.

**The Hon. TREVOR KHAN:** No, she is saying—

**Dr JOHN KAYE:** Sorry, if you want to talk to the point of order you can do so, but do not interrupt me. My line of questioning, which is valid, is to explore how much the witness is just saying that and how much she knows about the level of corruption that has occurred under private sector ownership in other parts of the world.

**CHAIR:** You can answer the question. You do not have to have any knowledge of what is happening in the United States. You are not here to discuss the United States.

**Ms DARROCH:** I am very much aware, having read newspapers and seen television, that the corruption occurs all over the place. I know that in England they are having corruption problems with private companies but it has got nothing to do with my book.

**Dr JOHN KAYE:** To that point, Ms Darroch—

**CHAIR:** You cannot argue with the witness. Ask a question.

**Dr JOHN KAYE:** Is your proposition to this inquiry that privatisation will resolve corruption? If so, how do you square that off with corruption that occurred in the privately owned utility industry in California?

**Ms DARROCH:** In a general way, you could say that a government-owned company has less responsibility to report directly to the consumer, whereas a private company has shareholders and it is tighter. I am not saying that there is no corruption in private organisations.

**Dr JOHN KAYE:** Sadly, my time is up.

**The Hon. CATHERINE CUSACK:** Look at what happened to Enron.

**CHAIR:** Mr Borsak.

**The Hon. ROBERT BORSAK:** I have no questions.

**Dr JOHN KAYE:** Gladly my time has not run out. Can I go back to your previous answer, Ms Darroch. You said that a private company—

**CHAIR:** That was Mr Borsak's time. Mr Darroch, will you give some examples of the term "featherbedding"?

**Ms DARROCH:** Yes. I would have to give that as a written submission because I do not have the figures with me. I can tell you that back in 1924 after the Civic Reform Association stopped running the Sydney Municipal Council, they left a profit or a surplus of £547,000. Three years later, after Labor had run the council, there was a deficit of £1 million. The number of people employed doubled from 500,000-something to over a million.

**CHAIR:** What is the most recent example of featherbedding of which you are aware?

**Ms DARROCH:** I am sorry, at this moment I do not have the figures with me. I will have to put that in writing.

**CHAIR:** Can you give us an example of featherbedding rather than the actual details?

**Ms DARROCH:** Over the years, after Sydney Electricity merged with Orion, they brought in a huge number of extra workers then. For a long time, the company was flush with workers. They then had to sack quite a few of them. The problem is that the Sydney County Council, before Sydney Electricity, was run by an organisation called the Electric Light Committee, and that was a very Labor-oriented organisation. They made sure there was featherbedding all the time, because that was their job.

**The Hon. ADAM SEARLE:** Point of order: None of this evidence relates to the current terms of reference or the Government's privatisation proposal that we are evaluating. This might be very interesting historically but not one thing this witness has said relates to the proposal we are examining.

**CHAIR:** That is why I was trying to get some recent examples from the witness.

**The Hon. ADAM SEARLE:** I appreciate your struggle, Chair, and I feel your pain.

**The Hon. CATHERINE CUSACK:** To the point of order: The witness has been repeatedly interrupted now by Mr Searle with this allegation that the evidence is irrelevant. She is seeking to detail to us the culture that has bedevilled the industry. It is very relevant, in our view. I ask that she be allowed to continue uninterrupted by Mr Searle.

**The Hon. ADAM SEARLE:** Further to the point of order: I have not interrupted this witness once. This is the first time I have taken a point of order. If Catherine was paying attention, she would have realised it was people to my left taking the points of order.

**The Hon. CATHERINE CUSACK:** Do you mean me?

**The Hon. ADAM SEARLE:** Yes. This is the first time I have interrupted the witness's flow by raising an issue with her evidence.

**The Hon. Dr PETER PHELPS:** Ms Darroch, would it be fair to say that there was a particularly cosy and, for consumers, unhelpful relationship between the unions and the way that the businesses were managed?

**The Hon. ADAM SEARLE:** When?

**Ms DARROCH:** Yes, I would say that that is what I felt.

**The Hon. ADAM SEARLE:** Point of order—

**Ms DARROCH:** I found that because in the beginning—

**The Hon. ADAM SEARLE:** It is customary that when points of order are taken that the points of order are able to be made.

**CHAIR:** She is still answering the question.

**The Hon. ADAM SEARLE:** Which time period is Dr Phelps referring to because if it is the dim distant past or the First Fleet, it might not be relevant to our deliberations.

**The Hon. CATHERINE CUSACK:** You can ask that on notice. That is not a point of order.

**The Hon. ADAM SEARLE:** It is.

**The Hon. CATHERINE CUSACK:** It is not a point of order and you know it.

**The Hon. ADAM SEARLE:** If Dr Phelps's question relates to the dim distant past or matters outside the terms of this Committee, it is not relevant.

**The Hon. CATHERINE CUSACK:** This is churlish behaviour.

**CHAIR:** Dr Phelps can clarify that in his question.

**The Hon. Dr PETER PHELPS:** In the past 20 years or so, has there been an unhealthy influence of trade unions in the way that the power industry has been run in New South Wales?

**Ms DARROCH:** Yes. I would say that when the Lemma Government tried to privatise or lease out part of what it had at that time, there was a definite problem that the unions prevented the sale going through. They would have got a lot of money at that time and it meant that possibly it was the best time ever to have sold the whole lot. The unions prevented that from happening. Though I am not allowed to name names, certain people spoke out very publically just recently on that matter.

**The Hon. Dr PETER PHELPS:** In your view, is part of the problem that the state-owned electricity utilities find themselves in largely or substantially due to an unhealthy control which the unions—particularly the ETU—has had over the operations of the industry?

**Ms DARROCH:** Yes, I would say that is the general picture.

**The Hon. Dr PETER PHELPS:** Has this arisen recently or has it been part of the ingrained culture of the utilities over years and decades?

**Ms DARROCH:** Definitely an ingrained culture over the decades, starting from the time when the electricity undertakings started in 1904. At that time, the unions had extreme control of the Sydney Municipal Council and it went on from there. They always felt that they owned the electricity industry.

**The Hon. Dr PETER PHELPS:** What was the effect of their belief that they owned it and had the right to dictate how it was run?

**Ms DARROCH:** They were able to force the general manager, who is always an engineer, to do things contrary to what the engineer really wanted, including sacking people who were palpably doing illegal things. As an example, Forbes Mackay, the famous general manager who was there for 39 years, sacked someone when he found that he was using the authority's equipment to moonlight and when the man was sacked, it turned out he was a member of a local Labor Party branch. Therefore, the Electric Light Committee reinstated the man and a month later gave him a rise.

**The Hon. Dr PETER PHELPS:** Would it be fair to say that over a sustained period of time electricity management has placed a higher priority on placating union interests than it has on achieving consumer satisfaction?

**Ms DARROCH:** If you look at the management being the engineers, they have always striven very hard to give the best quality power to the people and to make sure that the prices are lower, but they have been thwarted on many, many occasions by the politicians and the unions who have always wanted—it is a pot of gold. This electricity business is money for jam and everybody wanted to get their sticky fingers into it.

**The Hon. CATHERINE CUSACK:** In respect of Government regulation of electricity, would you accept from a governance point of view that the Government ought to be advocating the public interest, and does it present a difficulty when the party in power has members selected or their campaigns funded by a union? Is that a conflict of interest in terms of the public advocacy?

**Ms DARROCH:** Yes, I think so.

**The Hon. CATHERINE CUSACK:** Would you say what happened to Morris Iemma was an example of a Labor politician attempting to champion the public interest, but he was undermined—

**The Hon. Dr PETER PHELPS:** Torpedoed.

**The Hon. CATHERINE CUSACK:** —by the fundamental flaw in the government's arrangements.

**Ms DARROCH:** Yes.

**The Hon. TREVOR KHAN:** I think that is a high point to finish on.



**The Hon. DAVID CLARKE:** A point of clarification, Chair. Has Ms Darroch's book been formally tabled?

**CHAIR:** Not yet. She has tabled it on the table, but we have to pass a motion when she concludes her evidence.

**The Hon. TREVOR KHAN:** I so move.

**The Hon. ADAM SEARLE:** No, you do not.

**The Hon. DAVID CLARKE:** Up until what period in the electricity industry does your book cover? What is the most recent date?

**Ms DARROCH:** 2015, but it also looks at a little bit of what the future holds as far as anyone can look into the future in such a turbulent industry. I look at power, solar power, even fusion.

**Dr JOHN KAYE:** Cold fusion?

**Ms DARROCH:** I look at the possibilities of how the distribution of electricity is going to change, et cetera.

**The Hon. DAVID CLARKE:** So far as the book deals with featherbedding in the industry in New South Wales, it is up to date?

**Ms DARROCH:** Yes, I would say so.

**The Hon. CATHERINE CUSACK:** Can I draw an analogy here in relation to country rail, which was reform resistant. Being a country member, what we have now found is that new technologies, such as the airlines, have almost made rail obsolete. My local railway line has been closed. There is no service at all.

**Dr JOHN KAYE:** You could ask Mr Egan about that.

**The Hon. CATHERINE CUSACK:** Do you see reform in the electricity industry as important to maintaining its viability in the future?

**Ms DARROCH:** Very definitely so. In America, already some States are looking to have at least 50 per cent of their electricity provided by solar panels on people's roofs by 2030. That will change the whole profile of what the electricity industry is doing. Already the per capita demand for power in Australia has dropped. That is partly because appliances are more efficient and partly because of solar energy—not that solar energy is doing a lot now, but it will once they work out how to store energy more efficiently in batteries.

**The Hon. CATHERINE CUSACK:** So the monopoly position is under threat from other technologies.

**Ms DARROCH:** Very much so. Gas is becoming more and more important. Yes, the electricity industry must look at the situation very carefully. It will not become redundant because we have to transmit the power somehow. However, some of it will be going straight into people's homes from their roof.

**The Hon. CATHERINE CUSACK:** Nevertheless, the value of the asset has been declining for some years.

**Ms DARROCH:** It probably has, but you must realise that the population is increasing.

**CHAIR:** Thank you very much for sharing your knowledge and providing a copy of your book. We will table it in due course so that members can read it and have the benefit of your study. Some questions on notice may have been asked. If that is the case, you have three days from receipt of the transcript to answer them.

**Ms DARROCH:** Will I be provided with those questions?

**CHAIR:** Yes.

**(The witness withdrew)**

**MICHAEL EGAN**, former Treasurer of New South Wales, sworn and examined:

**CHAIR:** Thank you for appearing before the Committee. Do you wish to make an opening statement?

**Mr EGAN:** Yes. I point out that it is not my intention to become a regular commentator on the New South Wales Government and politics. Generally speaking, I believe that when the curtain comes down you should get off the stage. However, I make an exception in this instance because, as you will no doubt remember, Mr Chair, this issue has been close to my heart for almost 20 years.

**CHAIR:** Yes, I do remember.

**Mr EGAN:** What I will say today will please neither side of the debate. To put it as gently as I can, both sides have been economical with the truth. My own side, the Australian Labor Party, said that the sale of the poles and wires would result in increased prices. That is simply wrong. On the other hand, the Government was happy to convey the impression that by selling the poles and wires it would get a windfall of around \$13 billion. That, too, is wrong. To the extent that there is a windfall, and I believe there will be, it will be a fraction of the expected net sale price of \$13 billion. That is because the \$13 billion is not all new money plucked from a newly discovered money tree.

Most of it will simply be the current value of the dividend stream that is to be sold off. In other words, the real windfall will simply be the difference between the sale price and the retention value. To the extent that any new public works expenditure exceeds that windfall or what is already funded in the budget, it will involve an additional cost that needs to be funded by cutting other expenditures, increasing debt or increasing taxes. You cannot sell income-earning assets and replace them with non-income-earning assets without leaving a budget hole that needs to be filled in one way or another. Nevertheless, any excess in the sale price over the retention value is a windfall and, no matter how modest, it will still be of some benefit and will enable a commensurate expansion of the State's public works program.

One of the things that I hope this Committee will do is to challenge the opponents of this proposal to explain the advantages of retaining these network assets in continued public ownership. There may well be some advantages, but so far I have not heard any, and it seems to me that no-one has even tried to argue that there are any. Instead, the argument they seem to rely upon is that privatisation is bad because privatisation is bad, and public ownership is good because public ownership is good.

Decades ago public ownership of electricity utilities was essential for the public good. That is because the regulatory arrangements we have now were non-existent then. Regulatory theory and practice has developed enormously in recent decades, and Australia is in the forefront. Similarly, decades ago only governments could marshal the vast amounts of capital that these utilities required. Neither of those factors exists today. In other words, the rationale for public ownership of these assets no longer exists. Public ownership was never any more than a means to an end. For some people—regrettably too many in my own party—it has become an end in itself. It has become an ideological article of faith and I have never heard anyone who can explain why.

I have one more point to make. I remind members of this Committee and all members of Parliament that at the end of March—just a few weeks ago—there was an election. The future of the poles and wires was the central issue of the campaign; in fact, it was almost the only issue. The Government sought and obtained a mandate, and it seems to me that if you deny that mandate you are saying to voters that elections count for nothing. I am happy to take questions from members.

**The Hon. Dr PETER PHELPS:** The Construction, Forestry, Mining and Energy Union ran a particularly nasty election campaign relating to foreign ownership. What is your view of that campaign?

**Mr EGAN:** I thought it was disgraceful.

**The Hon. Dr PETER PHELPS:** Because?

**Mr EGAN:** I thought it was xenophobic.

**The Hon. Dr PETER PHELPS:** Is it true that New South Wales relies heavily upon foreign investment?

**Mr EGAN:** Australia relies heavily on foreign investment, as most countries do.

**The Hon. Dr PETER PHELPS:** So the idea that we should exclude, for example, Chinese investors is entirely without merit.

**Mr EGAN:** Yes, I think it is. It reminds me of the mistake that was made with the privatisation of the State Bank of New South Wales. One of the conditions was that only local companies could bid. That meant that the sale price the Government received was very much less than it would have been. In fact, as it turned out, there was no net profit—it was a net loss—because we retained the indemnities and warranties. For the first five or six of my budgets I was paying out a huge amount of money. That was a failed privatisation. Not all privatisations are good. They are like marriages: some are good, some are bad and some are in between. It is a case-by-case consideration.

**The Hon. Dr PETER PHELPS:** In March former Premier Bob Carr indicated to students at the University of New South Wales that he thought Labor should get out of the way and that if the election were won by the Coalition that Labor should pass the privatisation arrangements proposed by the Government. Do you agree with former Premier Bob Carr?

**Mr EGAN:** I think I said something similar to that in my opening remarks.

**The Hon. CATHERINE CUSACK:** Why were so many of the proposals put by former Labor governments to do something about public ownership of these assets thwarted?

**Mr EGAN:** Simply because many people were opposed to them, just as there are many people opposed to the current proposal. I note that Essential Energy, the country provider, is not being sold. I can only assume that that is because of objections from The Nationals. That is ridiculous. Whilst I support this proposal in general, simply because it is the only proposal on the table, it is not optimal. The idea that we sell 51 per cent of two utilities, none of a third utility and all of a fourth utility is nonsense. I was a politician and I understand that politics is the art of the possible. Sometimes you must make compromises to get things through the Cabinet or the party room, or to appeal to the public. However, many of the compromises made in this proposal ideally should not have been made, and I do not think in the end they have mattered one iota.

**The Hon. CATHERINE CUSACK:** Why do trade unions favour public ownership?

**Ms DARROCH:** To some extent it is a philosophical thing. They tend to be old-fashioned socialists, as I was until about 1967. Other than that, I think they regard publicly owned enterprises as a soft touch. They are easier to manipulate because they are constituents.

**The Hon. CATHERINE CUSACK:** So they have a privileged position in relation to policies and regulations. Given that governments come and go—

**Mr EGAN:** I assure you that some of the best sweetheart deals were done with Liberal governments.

**The Hon. CATHERINE CUSACK:** Can you give some examples?

**Mr EGAN:** It is par for the course. Bob Askin was famous for—

**The Hon. TREVOR KHAN:** Many things.

**Mr EGAN:** Yes. I think some were unjustified accusations; I do not think there has ever been proof of some of them. At every election he would do a sweetheart deal with the public sector unions to improve their superannuation entitlements. It meant there was no cost to the budget, at least initially, in terms of how public accounts were then kept. However, it certainly built up a huge liability. Unions have voters.

**The Hon. Dr PETER PHELPS:** You mentioned the regulatory framework that is now in place that was not in place when you proposed your energy initiatives.

**Mr EGAN:** It was.

**The Hon. Dr PETER PHELPS:** Was it the same national regulatory framework?

**Mr EGAN:** No, it was not the national framework. The national regulatory arrangements replicate what we had in New South Wales. I give credit to Nick Greiner for establishing the Independent Pricing and Regulatory Tribunal. At the time I did not think it would make any difference, but I am willing and pleased to admit that it did.

**The Hon. Dr PETER PHELPS:** Do you believe that the existing regulatory arrangements sufficiently protect consumers from price gouging and super-normal profits in these industries?

**Mr EGAN:** The regulatory structure does. However, that does not mean that the regulatory decisions are always right. In fact, I believe that one of the reasons network prices have gone through the roof in very recent years is that some of the regulatory decisions made not by the AER but by the Australian Competition Tribunal were nonsense. A couple of years ago I was on an expert panel headed by Professor George Yarrow from Oxford University—a brilliant man. We were given the job by all Australia's energy Ministers to examine the merits review regime for Australia's energy industries. We discovered that the national electricity law was badly framed or it was being wrongly interpreted. Regulatory decisions were adding hundreds of dollars to consumers' bills. I hope that has been fixed. However, you would not find a better regulatory structure anywhere in the world. We really are at the forefront.

**The Hon. Dr PETER PHELPS:** I would like to ask a hypothetical question. Do you believe that electricity prices for consumers would be cheaper than they are now if you and Premier Carr had been able to privatise to the extent that you wanted to in the late 1990s?

**Mr EGAN:** Absolutely. There is a simple reason for that and the previous witness touched upon it. Democracy is a marvellous thing; it is ideal for running a government. However, it is not ideal for running a commercial enterprise. The reason these things are better operated by the private sector and in the interests of the consumer is that the private sector is a better quality owner of commercial enterprises than the public sector.

**The Hon. Dr PETER PHELPS:** Putting on your former Treasurer's hat—

**Mr EGAN:** That was a long time ago. I was the Treasurer of New South Wales not only for a record term but also eight Treasurers ago. I think that is a disgrace.

**The Hon. Dr PETER PHELPS:** —is there an institutional problem in overinvesting capital expenditure by State-owned corporations? If so, why is that the case?

**Mr EGAN:** That certainly used to be the case when there really was no market.

**The Hon. Dr PETER PHELPS:** The Productivity Commission identified a similar problem in 2013.

**Mr EGAN:** The major problem now is getting the reliability standards right. Part of the overengineering, the goldplating, has been due to the reliability standards that State governments have been imposing on these utilities. We live in a society where if people have a blackout for 10 minutes a year, they think that is terrible. There is a trade-off.

**The Hon. TREVOR KHAN:** Some witnesses have been asked whether the regulatory framework should not only cover the transmission and distribution assets but also the retail assets.

**Mr EGAN:** No, because you have a competitive market in those areas. I was here when Mr Pierce and the chief executive of the Australian Energy Regulator were here on Friday. I was quite surprised to learn that there were 30 retailers. That is a very competitive market. You do not need to regulate competitive markets.

**The Hon. TREVOR KHAN:** There seems to have been a suggestion by some questioners that the decision to pass on any reduction in the costs of distribution is essentially at the largesse of the retailers.

**Mr EGAN:** I heard my friend and colleague Adam Searle intimating that during questions last week, and he is wrong.

**The Hon. TREVOR KHAN:** Would you like to explain that?

**The Hon. Dr PETER PHELPS:** No, I think that is fine.

**Mr EGAN:** No, to argue that changes in the network prices are reflected in the retail price that people pay and it is not passed on in a competitive market is just nonsense.

**The Hon. CATHERINE CUSACK:** You say the true benefit is in the residual value.

**Mr EGAN:** Not the residual value, the gap between the retention value and the sale price.

**The Hon. CATHERINE CUSACK:** Do you accept the Government's argument that there will be economic uplift as a result?

**Mr EGAN:** I do not accept the Deloitte argument.

**The Hon. CATHERINE CUSACK:** But do you accept that it will boost our economy and that economic growth is fundamentally the way to grow jobs and State revenue?

**Mr EGAN:** To some extent the benefit of that windfall will flow through to an economic benefit for the State and the nation. It might be \$2 billion, and \$2 billion out of the State budget of \$60 billion or \$70 billion—what is it now?

**The Hon. Dr PETER PHELPS:** It is \$70 billion.

**Mr EGAN:** It is very marginal. The point I am trying to make is that there is no magic pudding.

**The Hon. CATHERINE CUSACK:** Do you think that there is no major economic benefit?

**Mr EGAN:** No, the Deloitte report—

**The Hon. CATHERINE CUSACK:** I am not asking about the Deloitte report.

**Dr JOHN KAYE:** Let the witness answer the question.

**Mr EGAN:** There is a marginal benefit; there is no doubt about that.

**CHAIR:** Thank you for coming in, as an old sparring partner of mine.

**Mr EGAN:** We were often on the same side, too.

**CHAIR:** I appreciate that, because I was supporting your proposals.

**Mr EGAN:** Yes, you were and you should support these ones even though they are not ideal.

**The Hon. Dr PETER PHELPS:** Hear, hear!

**CHAIR:** You mentioned in a positive way the mandate that the Premier has because of how clearly he outlined the proposals and how attractive the infrastructure proposals are to the people of New South Wales to get new railway lines, new roads et cetera. Do you believe that this Committee should recommend supporting the privatisation?

**Mr EGAN:** In a word, yes.

**CHAIR:** Regarding the price, there has been a debate about how much would be raised because, as you rightly said, if it had been done earlier it might have been \$20 billion or \$30 billion.

**Mr EGAN:** I saw something prepared by Professor Quiggin that said \$20 billion. The Victorian industry got much more than that and the Victorian industry was much smaller than ours. Many of the Victorian assets are much inferior assets to ours. I had in mind a much bigger amount than that.

**CHAIR:** What was the Victorian figure?

**Mr EGAN:** It was well in excess of \$20 billion.

**CHAIR:** What do you estimate the New South Wales figure could be?

**Mr EGAN:** We never got to the stage of working out a retention value because we did not get past the concept stage. Certainly, I had in the back of my mind that it would be a lot, lot more than \$20 billion.

**CHAIR:** Yes, \$30 billion was mentioned.

**Mr EGAN:** That would have been more like it, in my mind. I qualify that by saying that we never got to the stage of working out the value. I am not an expert on regulated asset bases [RABs] and weighted average costs of capital [WACCs]. There are gurus in the Treasury who are highly skilled in these sorts of things—underpaid but highly skilled, they would make a fortune if they went into private industry—and they are qualified to work out those sorts of things.

**CHAIR:** Some people are saying the Government will not get more than \$13 billion now.

**Mr EGAN:** I would not give an opinion on that as it is outside my area of expertise.

**CHAIR:** That seems to be very low. Do you believe that consumer prices will go down? At the moment prices are highest in New South Wales, apparently.

**Mr EGAN:** I do simply because, as I have indicated, I think that private sector owners of commercial assets are better quality owners. They focused on a single objective, and that is maximising their profits. They benefit from that in the first instance, and under our regulatory system the consumer benefits from that.

**CHAIR:** Would you say that the leasing would offset the loss of dividends? Some people argue that the dividends are so important we should not proceed with the leasing.

**Mr EGAN:** That, of course, remains to be seen. I am very confident that it will be and you would not proceed unless the sale price did exceed the current value of the dividends. That will play out, and I am pretty confident that that will be the case.

**CHAIR:** A previous witness talked about some of the pressure that unions put on governments. For example, for the electricity union to get further featherbedding for their workers, which is their right, that might involve threatening blackouts and so on if the Government does not give them what they want.

**Mr EGAN:** I remember the day we were sworn in as a new government. I returned from Government House to what I think was a telegram or a note, in those days—I do not think it was an email—from the secretary—

**The Hon. CATHERINE CUSACK:** A telex.

**Mr EGAN:** No, it would not have been a telex. It was a note from a good friend of mine who was the secretary of one of the unions. It threatened that the Water Board would be on strike by 4 o'clock that afternoon unless I acceded to something. I made a quick decision to screw up the note and throw it in the bin. That was the way I treated him for the rest of my time as a Cabinet Minister. Those pressures are certainly brought to bear, and I always told them to go to blazes when they tried to stand over me. I cannot be certain that every other Minister would have reacted in the same way.

**CHAIR:** Was it easier to threaten Coalition governments than Labor governments?

**Mr EGAN:** There are a lot of nervous nellies in all political parties. This is a problem when government owns these utilities. Local members of parliament respond to their constituents. If Bill Bloggs is going to be moved from one depot to another depot, he goes to his local member and the local member gets onto the Minister and the Minister gets onto the general manager. You cannot operate like that—it is ridiculous. This privatisation issue is a good example. Let us imagine for a moment that these assets were owned by BHP. Would they take 20 years to make a decision? They would not have select committees or go to party

conferences or party rooms. They would analyse the decision, make a recommendation to the board which might mull over it for a little while, and a decision would be taken. They do not have to put up with all this rigmarole.

**The Hon. ROBERT BORSAK:** They have to put up with democracy. Is that not terrible?

**Mr EGAN:** Democracy is great for governing but it is no good for running a commercial enterprise.

**The Hon. ROBERT BORSAK:** Democracy put you there and now you are denigrating it.

**Dr JOHN KAYE:** You might not like it, but do you accept that we live with a bicameral parliament?

**Mr EGAN:** I do but I do not think that that gives you a mandate, Dr Kaye. You will have a mandate if and when you can win another 44 seats in the lower House.

**Dr JOHN KAYE:** To be clear, the Constitution says that a piece of legislation has to pass both Houses of parliament. The people of New South Wales might have—this is yet to be seen—voted for an upper House that does not support the proposal. You are saying that we ought to give in because the lower House is dominated by a party that does support the proposal. Is that correct?

**Mr EGAN:** What I am saying is that you should acknowledge the mandate that the Government sought and received. In all of my time following politics, which goes back to the Federal election of 1958, I have never seen—except perhaps for the Vietnam election when, in my view, the electorate got it wrong but that is beside the point—another election where there has been such a stark, clear and precise issue in an election.

**Dr JOHN KAYE:** You spent seven years in opposition in the Legislative Council. Is that correct?

**Mr EGAN:** Yes.

**Dr JOHN KAYE:** Was there ever a time in those seven years when you voted against a piece of legislation that was the result of a policy that the Government had taken to the election?

**Mr EGAN:** I am not sure about that, but if there had been I would have been quite happy speaking in opposition. If I thought our opposition was going to stymie something I would have thought again about how we handled it.

**Dr JOHN KAYE:** Are you saying that you would have thought again about it?

**Mr EGAN:** Yes, I would have taken the view that you do not stymie an elected government's mandate if they have a clear mandate.

**Dr JOHN KAYE:** Whatever they say in an election, regardless of how much anathema it is to you and your party, you would still say you should vote for it?

**Mr EGAN:** That would be my principle, yes.

**Dr JOHN KAYE:** Is that what you did in opposition?

**Mr EGAN:** I cannot recall the issue ever arising.

**Dr JOHN KAYE:** So you never disagreed with anything that the Government took to an election and subsequently tried to legislate on?

**Mr EGAN:** I do not recall us doing that on any single occasion.

**Dr JOHN KAYE:** You might take that on notice.

**Mr EGAN:** Okay. By the way, before we go on, I think this is the first time we have met.

**Dr JOHN KAYE:** No, that is incorrect. I have a better memory than you.



**Mr EGAN:** The first time I obviously did not realise, so now I would like to thank you. I am not a fan of your most recent political career but I am a great fan of your earlier career. I am very grateful to you for the paper that you co-authored in 1993 in which you advocated the establishment of a competitive electricity market with light-handed regulation. That was a very important paper.

**Dr JOHN KAYE:** You are misquoting what I wrote.

**Mr EGAN:** I have it here.

**Dr JOHN KAYE:** I am deeply flattered by the research you have done.

**CHAIR:** Mr Egan, please table that paper.

**Mr EGAN:** It was very influential in our decisions in the second half of 1995 to set up the New South Wales electricity market and the subsequent national market.

**Dr JOHN KAYE:** That is actually incorrect. First, you have misquoted the paper and, second, I recalled distinctly your Government. I have a question that goes to the same issue.

**The Hon. Dr PETER PHELPS:** Would the witness be kind enough to table the document he is referring to?

**Mr EGAN:** Yes, sure.

**Dr JOHN KAYE:** How long ago did I write that? Mr Egan, you said before that a big part of the problem—and I think the problem you were talking about would colloquially referred to as "goldplating"—was the issue of reliability standards set by the State government. You would be aware that the Government's submission to this inquiry says it will continue to set those reliability standards.

**Mr EGAN:** I am sorry but I have not read the Government's submission.

**Dr JOHN KAYE:** You would be aware that there is no proposal on the table to change the reliability standards.

**Mr EGAN:** As I understand it, there is a proposal that this be a national issue rather than a state-based issue. I understand that is afoot.

**Dr JOHN KAYE:** It is not clear.

**Mr EGAN:** In any event governments from time to time would change the reliability standards. I think there has been awareness amongst governments in all jurisdictions that there has been some goldplating and that it is unnecessary. That has become apparent because of the increase in network prices.

**The Hon. ROBERT BORSAK:** Mr Egan, I think I have not met you but I am sure you would have met Mr Tingle.

**Mr EGAN:** Yes, he is a fine man.

**The Hon. ROBERT BORSAK:** He is a fine man. In 1997 my research shows that, despite what you said earlier, the sale figure you were looking for was around \$22 billion.

**Mr EGAN:** Where did you get that?

**The Hon. ROBERT BORSAK:** Based on the research that I have done.

**Mr EGAN:** What sort of research?

**The Hon. ROBERT BORSAK:** We are not here to question me.

**Mr EGAN:** We did not even get to the stage of working out a retention value because we did not get past the concept stage. So just because the "Bullamakanka Gazette" says it was \$22 million does not mean it is true.

**The Hon. ROBERT BORSAK:** I did not say it was true.

**Mr EGAN:** Well you cannot tell me where you got it from; you just made it up.

**The Hon. ROBERT BORSAK:** No, I did not make it up. You are here to answer questions not to ask them.

**Mr EGAN:** I am answering them. I am sorry if you do not like the answers.

**The Hon. TREVOR KHAN:** Actually he is here to assist the Committee.

**The Hon. ROBERT BORSAK:** Well, I am here to ask questions.

**The Hon. Dr PETER PHELPS:** Hear, hear.

**The Hon. ROBERT BORSAK:** Mr Egan, you said quite strongly, and I think correctly, that this sale should only go through if the net cash flow to the State is positive. Is that correct?

**Mr EGAN:** Cash flow is a bit of a simplified concept. Retention value is a bit more than that.

**The Hon. ROBERT BORSAK:** Okay, well let us call it retention value.

**Mr EGAN:** If you are going to sell a car, you are not going to sell it if the price you receive for it is less than the value you place on the continued ownership of that car—or if you were going to sell a gun, it is the same thing.

**The Hon. ROBERT BORSAK:** Did you do any research at the time in your unfinished concept paper into the likely future cash flows, either dividends, loan guarantee fees or tax equivalent payments?

**Mr EGAN:** As I said, we did not get to that stage. The only indication we had in those days was the price which the industry had got in Victoria.

**The Hon. ROBERT BORSAK:** What did that research indicate to you?

**Mr EGAN:** As I mentioned earlier, at the back of my mind I thought we would get a lot more than Victoria got because we were bigger and, from what I understood at the time, the quality of our assets was higher than those of Victoria. Theirs tended to be a bit more clapped-out than ours. Certainly their power stations are brown coal fired power stations, which are not terribly efficient, whereas ours use lovely, beautiful black coal.

**The Hon. ROBERT BORSAK:** Working on my figure—not yours, as you say—of a potential sale price back in 1997 of \$22 billion, the New South Wales Government has received well in excess of that figure up to and including 2014 by way of dividends, tax equivalent payments and loan guarantee fees. So, again, was that the right decision to not go ahead at the time?

**Mr EGAN:** It was the wrong decision not to go ahead.

**The Hon. ROBERT BORSAK:** You have just contradicted your own evidence.

**Mr EGAN:** No I have not. You are setting up a straw man argument. You are not taking into account—

**The Hon. ROBERT BORSAK:** No, it is a fact.

**Mr EGAN:** When I first became the Treasurer of New South Wales, we were paying interest rates well in excess of 10 per cent. Interest rates now are very low, but they are not going to stay that way. At some point

we will again be paying interest rates in excess of 10 per cent. One of the reasons for that will be that governments will have to inflate their way out of debt.

**The Hon. TREVOR KHAN:** Is the Hon. Robert Borsak listening to these answers?

**The Hon. ROBERT BORSAK:** Yes, I am listening to these answers. Is the Hon. Trevor Khan listening to these answers?

**The Hon. TREVOR KHAN:** Absolutely.

**The Hon. ROBERT BORSAK:** I am glad.

**The Hon. ADAM SEARLE:** Mr Egan, you say that you support the current Government's proposal to lease the polls and wires. The Government has also said that it will spend all of the proceeds of the transaction—partly on debt retirement, although we do not know how much, and partly on spending up big on infrastructure. Is that a prudent course? Is that the prudent way to apply the proceeds?

**Mr EGAN:** If you are assessing the worth of any privatisation proposal, you need to look at not only the revenue you will receive but also what you are going to do with the money. The point I would make is that you cannot replace an income-earning asset with a non-income-earning asset—indeed, an asset that will cost you money—without creating a hole in the budget that needs to be filled in some other way. So except for whatever the windfall is, if you just spend the rest of the net proceeds then you do have to make up for that in some other way.

**The Hon. ADAM SEARLE:** The Government is proposing to spend \$20 billion on infrastructure, mostly in the area of roads and rail, which require net contributions from the State Government and will not generate net revenue. Is that a prudent way to apply the proceeds?

**Mr EGAN:** It is not prudent to spend all of the revenue you get from the sale of income-earning assets on non-income-earning assets.

**The Hon. ADAM SEARLE:** So on that analysis the Government's proposal is not financially prudent?

**Mr EGAN:** What the Government is doing with the funds I think needs to be seriously reconsidered. But there is a windfall, perhaps a much smaller windfall than the Government anticipates, in selling them.

**The Hon. ADAM SEARLE:** So when the Government talks about net proceeds of \$13 billion or whatever the figure turns out to be—

**Mr EGAN:** Only some of that is new money.

**The Hon. ADAM SEARLE:** That is right. So you are saying that you should only spend anything received over and above the retention value?

**Mr EGAN:** You can spend more but if you do then you have to increase taxes, go into debt or stop spending on something else.

**The Hon. ADAM SEARLE:** How do you think the proceeds should be applied then?

**Mr EGAN:** I am not in the business of governing the State any more; that is a matter for the Government. But it has to understand the consequences. What is also important is the quality of the assets or your spending, if you like. Not all infrastructure spending is worthwhile. If you look at Japan, it has been spending on public works for the last 20 years in the hope of reviving its economy and it has not really worked—it is still crawling along. The assets that you purchase or invest in have to be good ones. I am not confident that they necessarily will be.

For example, the proposed light rail to go from George Street to Randwick and Kingsford is going to be a catastrophe not only whilst it is being built but also after it is built, because people are going to have to change their mode of transport twice. The light rail trams will carry fewer passengers than the buses do now. So I think it is going to be \$2 billion badly spent. That is not to say that every proposal will be a bad one.

**The Hon. ADAM SEARLE:** Have you reviewed or seen the Deloitte Access Economics report entitled "Economic Impact of State Infrastructure Strategy"?

**Mr EGAN:** Yes, I have.

**The Hon. ADAM SEARLE:** Do you have any comments about the methodology and findings?

**Mr EGAN:** Yes, I think they gathered all their data together and put it through a Thermomix, which is renowned for cooking up anything you want to cook up. It is absolute nonsense. They made a number of elementary errors. In fact if they were right, they would be in line to win the Nobel Prize in economics next year because they have discovered something that every economist and every politician has been looking for forever—that is, the magic pudding. The whole of their analysis is deficient. Firstly, they assume that there is a windfall of \$20 million—a figure that has just come from nowhere. Secondly, they assume that we are sort of a closed off economy like in North Korea so nothing leaks out and nothing leaks in. It is just nonsense. By the way, I generally have a high regard for Deloitte but their reputation has not been enhanced by this report.

**The Hon. ADAM SEARLE:** The presentation made to this Committee by the Premier and the Government's submission to this inquiry seem to me to be predicated almost entirely on that report. Does that report make an unstable foundation for this proposal?

**Mr EGAN:** Certainly the Premier has used that report to his advantage, but I think he is wrong in doing so.

**The Hon. ADAM SEARLE:** What do you think about the safety or the reliability of the increases in Gross State Product [GSP] forecast in that report? How safe do you think it is to rely on that?

**Mr EGAN:** The \$300 billion figure is just drivel.

**The Hon. ADAM SEARLE:** Could you elaborate on that? What makes you think that?

**Mr EGAN:** For a start, if I spend \$10 today here in Sydney then some of that money is going to leak out to Victoria, Queensland, China or the United States. We are not a closed economy. One of the seven successors I have in this State as Treasurer, Mr Michael Costa, used to say that New South Wales is not an economy; it is an accounting entity. He is absolutely right. The only way you could get that sort of magic pudding multiplier is in the people's republic of North Korea or the old Soviet Union, which are really closed economies—and we know what happens there.

**The Hon. Dr PETER PHELPS:** Could you elaborate for Dr John Kaye? I am not sure that he does really.

**Mr EGAN:** I know that Dr John Kaye is a great believer in competitive markets.

**The Hon. ADAM SEARLE:** So you do not think that the Deloitte Access Economics report is a firm foundation to rest this proposal on?

**Mr EGAN:** No, I think it is an excellent case that should be given to first-year economics students so that they can have something easy to tear apart.

**The Hon. ADAM SEARLE:** One of the things that the Committee has received conflicting evidence about is the impact on the State budget. What will lose by way of dividends and tax equivalent payments and what is the real value of that? The Deloitte Access Economics report has absolutely nothing to say about or any analysis of the impacts on the State budget.

**Mr EGAN:** No, it does not.

**The Hon. ADAM SEARLE:** Should there be an independent and rigorous analysis of what the impact on the State budget will be before we embark upon this privatisation?

**Mr EGAN:** Treasury will do that. As I mentioned earlier, Treasury will do an excellent job. They are real professionals. They are underrated, underestimated and underpaid.

**The Hon. ADAM SEARLE:** Should that analysis be made public?

**Mr EGAN:** Do we make public a reserve price at an auction?

**The Hon. ADAM SEARLE:** I am not suggesting that a reserve price be made public.

**Mr EGAN:** Certainly after the event the Auditor-General of New South Wales would have a good look at it during his audit of the transaction. By the way, whilst I am not familiar with the methodology, for those who are familiar with it and who do this analysis every day of the week it is not rocket science—it is not as though something is going to be put over you or put over the Government.

**The Hon. ADAM SEARLE:** On the role of the Auditor-General, this is perhaps the largest financial transaction embarked upon by the State Government. If it goes wrong, there is a lot at stake. Should the Auditor-General be asked to do some sort of value for money analysis of the transaction before it is entered into?

**Mr EGAN:** No, because that is completely contrary to the role of the Auditor-General. The Auditor-General is not part of the Executive Government. His role is not to advise; his role is to audit. When you start getting the Auditor-General to advise the Government big mistakes are made. It was done once; and I must say I was responsible for it and I have been very sorry for it ever since—that was with the sale of the State bank. We insisted that the Auditor-General give us an assessment of the value of the warranties and indemnities that the State would retain. He came up with a figure of \$60 million. It turned out to be over \$600 million. It was only in subsequent years that I realised that I had done the wrong thing in insisting that he be brought in to advise the Parliament before the decision was made. His role is to audit not to advise.

**The Hon. ADAM SEARLE:** When you were Treasurer you were part of governments that undertook a number of privatisations.

**Mr EGAN:** Yes.

**The Hon. ADAM SEARLE:** How were the proceeds applied?

**Mr EGAN:** Generally they were applied to consolidated revenue. We use them to reduce debt, which meant that we were not only paying less interest but also able to finance more and better services and infrastructure.

**The Hon. ADAM SEARLE:** What will be the financial impact on the State if this Government spends all of the proceeds of the asset privatisation?

**Mr EGAN:** If it does, it will have to go further into debt. I might say that when I left office general Government net debt was effectively zero. It has exceeded \$10 billion in recent years. That is fine when interest rates are almost zero but when I became Treasurer I think the third or fourth biggest item in my budget was servicing the debt—it was spiralling out of control. If we keep on building up the debt then it will spiral out of control at some stage in the future. Not only that, as we saw during the global financial crisis, Governments can get to the stage where there can be no finance available for refinancing maturing debt. You have to have a really high credit rating to be assured that when you want the money you will always get it.

**The Hon. ADAM SEARLE:** The Government claims that this transaction will reduce government debt by \$30 billion even though the companies to be leased are only carrying a debt of \$15 billion. Can you make sense of that?

**Mr EGAN:** I think it is confusing gross debt with net debt. Certainly there is a benefit in reducing gross debt. But all the reduction in gross debt does not go to reduction in net debt. Certainly rating agencies do look at that sort of thing. They see that you are holding risky assets. If you can improve the quality of your budget sheet, that goes to shoring up your credit rating.

**The Hon. ADAM SEARLE:** So by embarking on this transaction the Government might reduce its debt for a time after it gets the proceeds but then as it builds infrastructure the debt profile will blow out again.

**Mr EGAN:** The funding for infrastructure has to come from either the windfall, annual government revenues or new debt.

**The Hon. ADAM SEARLE:** But if it spends all of the proceeds then it is effectively coming from Government revenue not just the windfall.

**Mr EGAN:** If you spend the \$13 billion then, yes, there is a hole somewhere.

**The Hon. ADAM SEARLE:** So the Government is engaging in funny accounting—is that what you are saying?

**Mr EGAN:** I think the Government is doing what the Labor Party did—it is being economical with the truth.

**The Hon. PETER PRIMROSE:** I was very interested in what you were saying about net debt. I think that is a very important point, Mr Egan. Could you possibly take on notice, when you have had an opportunity to review the *Hansard* transcript, whether you have any additional points in relation to paying off debt?

**Mr EGAN:** I probably will not. As I said at the outset, I do not really want to make it a feature of my life after politics that I become a permanent commentator. I am quite happy doing other things.

**The Hon. PETER PRIMROSE:** I would appreciate your comment on that.

**Mr EGAN:** I will give you some private advice.

**The Hon. PETER PRIMROSE:** Thank you. I always welcome your advice. Back in June 2014 the Premier stated that as part of this proposal, electricity prices will be discounted by 1 per cent off the forecast regulated prices until 2019. Do you have any comments on that?

**Mr EGAN:** I assume that is a comment on the recent regulatory determination.

**The Hon. PETER PRIMROSE:** That was his statement back in June 2014.

**Mr EGAN:** I am not aware of that statement, but it is pretty obvious that the network component of electricity prices is about to be reduced substantially.

**CHAIR:** With the infrastructure, a statement has been made quite often in these hearings that there is no financial benefit from all this infrastructure. It occurred to me that if you are building a new railway tunnel, improving the railway system, you increase the patronage, you increase the income. So there is a financial benefit to the Government.

**The Hon. CATHERINE CUSACK:** With user charges.

**Mr EGAN:** There is a benefit, but the benefit might be wiped out if you are transporting people to an area where they should not be transported to. In other words, what I am saying is you probably should not be thinking that the only infrastructure that benefits the State is infrastructure that links people with the CBD. It might be better linking Parramatta with Liverpool, with Campbelltown or the Central Coast or something. All of these things need assessment.

**The Hon. Dr PETER PHELPS:** Would it be useful, for example, for Infrastructure NSW to certify that there is a cost benefit analysis greater than one?

**CHAIR:** You might put that question on notice. We appreciate the time you have agreed to come and be a witness, being a former Treasurer. We are going to have the current Treasurer appear before the Committee shortly.

**Mr EGAN:** It has reminded me of question time. People might not realise this but I was really hounded out of Parliament. The Opposition boycotted asking me questions. Being Treasurer was a difficult job and the only entertainment and pleasure I got from it was question time, and they stopped asking me questions.

**The Hon. Dr PETER PHELPS:** I understand Mr Searle is prepared to stand down and offer you a casual basis.

**CHAIR:** Thank you very much for giving up some of your valuable time, Mr Egan.

**The Hon. DAVID CLARKE:** Can I ask you: in the documents you have tabled, the parts you have underlined are the parts you want to draw attention to?

**Mr EGAN:** They are my underlining but I do not know whether they are the most relevant parts. It is only a few pages. It is great bedtime reading; I suggest you have a look at it.

**(The witness withdrew)**

**(Luncheon adjournment)**

**BETTY CON WALKER**, Principal, Centennial Consultancy, sworn and examined:

**ROBERT GRAHAM WALKER**, Emeritus Professor of Accounting, University of Sydney, affirmed and examined:

**CHAIR:** Thank you for appearing before the Committee. Do either of you wish to make a brief opening statement?

**Dr CON WALKER:** We do, Chair. We come here today fearing that this is an inquiry with predetermined outcomes. Not the least of our reservations is its short time scale. It would be difficult to convince any long-term observer of these matters that this inquiry is not designed to endorse the Baird proposals and avoid serious intellectual engagement with matters put before it, but we live in hope. We oppose this privatisation because it involves monopolistic, profitable assets providing an essential service. Our reasons are detailed in our submission, which I believe members of the Committee have in their possession.

The premise of the proposal that \$20 billion worth of infrastructure investment over 10 years will only be undertaken if the State's electricity assets are privatised is just a silly, salesman's trick. An examination of the State's own budget papers over the past decade places in context the Premier's grossly exaggerated statement that his proposed \$20 billion spend over 10 years—that is an average of \$2 billion a year—is a once-in-a-generation opportunity. General government capital expenditure in the last decade was close to \$70 billion, more than three times Mr Baird's once-in-a-generation proposal. In the decade to 2017-18 this figure is over \$95 billion. That is without electricity privatisation.

Moreover, the misleading continuing claim that only 49 per cent of the network assets are to be privatised implies retention of a majority interest. In fact, using the book value of the network agency assets, the State's interest in the three agencies to be privatised would be less than 38 per cent. Mr Baird claimed to be selling only 49 per cent when it is actually 62 per cent. That goes to the ethics of the sales job. It is a worry that the Committee may be derailed into considering how the privatisation should proceed rather than why it should. But should it proceed our worries are many.

**Professor WALKER:** The first obvious point is that in substance a 99-year lease is equivalent to a sale. That is recognised by international accounting standards. The second relates to the calculation of retention value. The Premier told the Committee that for the Government to undertake the lease it must receive more than the dividend streams are worth and that the upfront proceeds would be nothing more than the net present value of future dividend revenues. Those comments reflect a fundamental misunderstanding of financial concepts and public sector practices.

First, under government ownership the State receives not only dividends but also tax equivalents and loan guarantee fees. It also has the possibility to enhance its dividends from retained earnings, which themselves in the past three financial years have totalled \$1.03 billion of the agencies slated for privatisation. If these are not included in the calculation of retention value then the Government indicates it is prepared to sell the assets for far less than they are worth. Moreover, there has been no explanation of what discount rate it will use to calculate the present value of those dividend streams, whether it is 3 per cent or 30 per cent, and that can make a big difference.

But there is more. The level of dividend payments is negotiated between agencies and shareholding Ministers. In effect, government can manage the level of dividends. There are more problems. Retained earnings only represent reported profits less dividends. The Government is in the unusual position of manipulating its reported profits by upward asset revaluations of depreciable assets. That does not happen in the private sector for listed companies; those revaluations affect the amount of depreciation expense and hence reduce reported profits. Claims that governments face declining dividend revenues because of recent Australian Energy Regulator [AER] determinations should be taken with a pinch of salt—maybe a barrel of salt. In any case, if the rates of return enjoyed by these agencies were to decline from say 80 per cent to 60 per cent on a private sector accounting basis that is still a rate of return that would be the envy of most investors.

In summary, if the Baird Government assumes that retention value is the net present value of expected future dividend payments alone, that will involve disposal of the businesses for far less than they are worth. That would not be in the public interest. I believe members of the Committee should reflect on their ethical



responsibilities if they proceed to endorse a proposed set of transactions that could be so damaging to the State's finances.

We have spent hundreds of hours looking at these transactions. We hope that this Committee would be in a position to scrutinise whether the proposed lease is of the assets of the businesses or the businesses themselves or shares in the entities currently operating those businesses; the terms of the proposed lease agreement, particularly conditions relating to the lessee's responsibilities to maintain or replace elements of the distribution systems and provide access arrangements to suppliers of renewable energy; the potential exposure of these entities to real Commonwealth taxes rather than tax equivalents; and whether the lease will be of a debt-free entity or business, whether the State will assume responsibility for current employee entitlements and whether the State will continue to be responsible for existing debt.

We have looked at some of the evidence before the Committee and note that several witnesses were unable to answer direct questions or deliberately chose to avoid providing fairly basic information to the Committee to make its judgement about these transactions. I conclude by saying the devil is always in the detail.

**The Hon. ADAM SEARLE:** Professor Walker, you mentioned tax equivalent payments. At the moment these businesses pay the equivalent of Commonwealth company tax to the State government as well as shareholder-style dividends. Leaving aside the fact that we do not know whether shares in the existing legal entities will be sold or leased or whether some new entity will be created, is it not the case that to avoid or not be subject to Commonwealth company tax an entity has to be wholly State government owned?

**Professor WALKER:** That is my understanding but Mr Baird claimed the State will continue to receive tax equivalents and suggested he had received assurance of this from the current Commonwealth Treasurer. I am not sure he will be there in 99 years. But I have to note that a Senate committee was given evidence to the contrary from a Treasury official indicating that the Commonwealth expected to receive tax payments from privatised or leased entities. I have looked for Mr Baird's response to this issue. I note that he took it on notice and it is yet to appear on the Committee's website even though it past three days after the transcript.

**The Hon. ADAM SEARLE:** I think they are due at 10 a.m. tomorrow.

**Professor WALKER:** Sorry. But I have not read them. If the Committee had another hearing we could come back and respond.

**The Hon. TREVOR KHAN:** I do not think we need this sort of commentary.

**Dr JOHN KAYE:** Point of order—

**CHAIR:** Mr Searle is asking questions.

**The Hon. ADAM SEARLE:** I understand there is no empirical truth in economic or accounting forecasts in that there are different approaches taken by different bodies at different times and perhaps even in different jurisdictions, but what are the range of usual or appropriate discount rates to apply to future income streams to work out the net present value of whatever revenue stream you are considering?

**Professor WALKER:** The literature on corporate finance suggests it should be the weighted average cost of capital, which reflects the weight of what interest is being paid on debt and also what "shareholders" demand as a rate of return on their investment. I have been a shareholder for many years and I have demanded a rate of return from some companies and never got it. But in practice, practitioners in Australia and regulatory agencies like the AER have accepted the use of the capital asset pricing model. That looks at the volatility of shares in a particular company relative to the market as a whole and uses this as a basis for evaluating or providing what is a fair rate of return. The same arguments can be used to calculate retention value.

My difficulty with that firstly is that the Government does not have shares, it is there to provide services. Hence I and many others do not believe that is the appropriate approach to use when evaluating projects in government. More importantly, I think the academic literature has come to that view. Nobel Prize winning economists have argued for the use of the social discount rate, which is much less than what the private sector might demand because governments are less risky because they have the capacity to raise money from taxes.

**The Hon. ADAM SEARLE:** But these are regulated assets, regulated incomes. They are not subject to competition because there is only one set of poles and wires in each State. What impact should that have on setting the discount rate?

**Professor WALKER:** From the point of view of the regulator, they have chosen to use the private sector discount rate, which I think is inappropriate. Indeed, I was about to say that other jurisdictions—Britain, Canada, the United States—do not use this private sector cost of capital. It seems to be something peculiar to the arguments of right wing economists in this country, whereas even right wing economists in other countries accept the use of the social discount rate when evaluating projects from the government's point of view. The effect of the AER in using a private sector discount rate has been overly generous.

Secondly, in applying the capital asset pricing model initially the AER assumed that the beta factor in the capital asset pricing model was one—that is, it equals the risk attributed to the whole of the share market. Research evidence has indicated in the United States [US], where public utilities are publicly traded, that the risk is far less for a business that is regulated. That indeed is the main or basic reason why the determinations of the Australian Electricity Regulator [AER] have reduced the amount of revenue that distributors can earn because, on advice, they have adjusted the risk downwards, recognising, I think, that a regulated industry is in a less risky position, particularly if they are monopolistic.

**The Hon. ADAM SEARLE:** The Government is simultaneously advancing the argument that they will be able to achieve a good value sale price, or a lease price, of net \$13 billion or better, potentially, they claim, but at the same time the projected revenues from these businesses, according to the Premier's presentation, are due to crash and burn in the wake of the AER determination—although I note that those determinations this morning have been largely revoked. Leaving that to one side, what analysis do you apply to this sort of simultaneous proposition of diminishing returns, but a huge sale price?

**Professor WALKER:** First, in terms of diminishing returns from gross revenues from the business, from sales, revenues to retailers and so forth, I think the AER agrees that this is going to drop in the short term and it is then going to flatten. They were a bit evasive about whether it would go up. The point to be made here is that the regulator looks at the fair rate of return on a regulatory asset base. What they did not put into evidence is that the regulatory asset base, first, is based on current replacement prices—and that covers new investment later on—and, second, it is indexed by the consumer price index [CPI]. So the regulatory asset base is going to incrementally increase each year. That does not happen with private sector asset values at all.

**The Hon. ADAM SEARLE:** How does the private sector approach it?

**Professor WALKER:** They just use historical costs. Assets are valued by listed companies at historical cost less depreciation.

**The Hon. ADAM SEARLE:** What impact has that approach had on the asset base?

**Professor WALKER:** I will talk about the asset base itself. They adopted some figures initially from the Independent Pricing and Regulatory Tribunal [IPART], I think, and they then accepted the use of replacement prices. Lately they suddenly decided they only want to look at “efficient” capital investment, which is more or less an admission that they had not done so previously. I believe that the revenues allowed for the distributors will drop initially but then will probably incrementally increase with inflation over time and with additions to the asset base. Turning to the Government's position, though, that is totally different because of the way in which electricity distributors do their accounting. They have essentially revalued their assets upwards.

**The Hon. ADAM SEARLE:** In 2013?

**Professor WALKER:** Yes, well, over time. They have been doing it progressively but in 2013, particularly, I think Ausgrid wrote up its assets by \$2.9 billion on the last day of the financial year.

**The Hon. ADAM SEARLE:** What impact has that had on the evaluation of those businesses?

**Professor WALKER:** In our paper, I go through the calculations in some pages indicating that if they had used private sector accounting methods, such as used by listed industrial companies, they would be showing

a rate of return of around 80 per cent or 82 per cent per annum, some of them, and that is just astonishing. That is super profits.

**The Hon. ADAM SEARLE:** That makes them a very good investment for a private purchaser, does it not?

**Professor WALKER:** I think the private sector has the capacity to see through these accounting tricks. I spent a few days on it, but I mean they have been spending months on it. They will recognise that with a privatised business, they can then reset asset valuations. They can write them down. They can do all sorts of things. They would see this as an opportunity, I think. I think they would see the underlying profitability of the business is substantially higher than as recorded.

**The Hon. ADAM SEARLE:** With the revaluation of the assets and the claiming of greater appreciations, that had the effect, did it not, for these businesses of downplaying their return on equity or return on assets?

**Professor WALKER:** Yes, certainly. I think at the time, when people were critical of rising prices, that was probably a neat trick. It manages to actually revalue some of the assets upwards to reduce their reported rate of return. I should actually add a bit of a qualification: One of the reasons why they are so profitable is that they are earning in real terms more than it is costing them in finance. They are very highly geared businesses. I mean while governments of different persuasions are decrying the evils of public sector debt, in fact they have been loading up—in these agencies—they have been loading up their liabilities, not in the general government sector but in the profit-seeking public trading sector.

**The Hon. CATHERINE CUSACK:** Michael Egan did that.

**Professor WALKER:** Yes. Look, they have all done it, but it is interesting to see that while the Premier talked about reducing debt, his own budget papers last year talked about how TransGrid and other entities needed to have a more efficient balance sheet -they had too much retained earnings; hence, they could pay the higher dividends in future or else, indeed, borrow more.

**The Hon. ADAM SEARLE:** What is your analysis—that the dividends and other returns will not reduce, as predicted by the Government?

**Professor WALKER:** The dividends could be adjusted by a few book entries. I mean, you change your accounting and then you have higher profits and then you can pay higher dividends. You can distribute higher dividends. At the same time you borrow and the Government would be happy.-you would have a “more efficient balance sheet.”

**Dr JOHN KAYE:** Which brings me to my first question: What is the sustainable dividend of these businesses under current circumstances? The Government only gave us forecasts on Friday of last week, which were doom and gloom, down to \$107 million for the businesses that were subject to privatisation. That is as a result, I presume, of negotiation and accounting tricks. But in a real sense, what is a sustainable dividend?

**Dr CON WALKER:** Well, anybody in the public sector knows that dividends are actually decided on between the Treasurer and the agency. If the Treasurer needs a bit more money, then he gets a bit more money and it is incorporated in an agreement with the agency. The sort of information that was provided in one of the hearings is that because of the AER determination, which I understand has now been withdrawn, the dividends will automatically be reduced because of that determination. But our understanding is that whilst the regulators determine the revenues of the agencies, they do not determine how that revenue is spent in terms of line items. It is the decision of the agency as to how they spend that money.

To relate the two is just a nonsense, and it should not be accepted by the Committee as fact. In terms of the profitability of the agency, I think the professor has gone through his analysis of the profitability of those agencies, which is not going to disappear overnight. To go back to an earlier question, to have a Government trying to sell these valuable assets and at the same time say that they will not be producing any revenues in the future is a bizarre situation that I, as an economist, do not understand.

**Dr JOHN KAYE:** You see a contradiction between the two statements?

**Dr CON WALKER:** Absolutely.

**Dr JOHN KAYE:** That, on the one hand, the private sector would be prepared to pay for the leases—

**Dr CON WALKER:** Yes.

**Dr JOHN KAYE:** —and, on the other hand, there are no dividends that can be extracted from it.

**Dr CON WALKER:** Yes.

**Dr JOHN KAYE:** From your examination of the books and your knowledge of these enterprises, in an ongoing sense what level of dividend could be taken from these businesses by a public sector owner without damaging the financial status of the undertakings?

**Professor WALKER:** I think you have to take it case by case. It is pretty hard to give a generalised argument.

**Dr CON WALKER:** Also, let us not limit it to—you know, we all keep talking about dividends. We have dividends, we have tax equivalent payments and we have loan guarantee fees.

**Dr JOHN KAYE:** Sure.

**Dr CON WALKER:** A very big chunk is always left out. In 2013 the Premier's office helpfully calculated that figure—because it is not shown in a separate form anywhere—

**Dr JOHN KAYE:** Yes, I know. That was the \$380 million.

**Dr CON WALKER:** —at \$338 million. That is in one year. To look at that out over the last 20 years, imagine how much in additional payments has been made to the State from those agencies, and, in addition there are the retained earnings that have just been gone through. Let us just not limit it to—

**Dr JOHN KAYE:** Sure.

**Professor WALKER:** But Dr Kaye is asking, though, to what extent could those retained earnings be drawn upon to pay a higher dividend?

**Dr JOHN KAYE:** That is exactly right, yes.

**Professor WALKER:** Plainly, on the face of it, there is a lot of—three point—what is it? I have forgotten the figure that was quoted a moment ago.

**Dr CON WALKER:** For what?

**Professor WALKER:** For retained earnings in the last three years.

**Dr CON WALKER:** It was \$1.03.

**Professor WALKER:** It was \$1.03 billion. Certainly a proportion of that could have been paid out. I think a prudent financial manager would have regard to the emerging cash commitments associated with each individual business, but the fact is we have just come to the end, as acknowledged by the agencies, of a massive capital investment cycle. All the money has been just spent on renewing infrastructure. Some call it gold-plating, but the money has been spent. The need for that is obviously going to be reduced in the coming decade.

**The Hon. ROBERT BORSAK:** Professor Walker, you refer in your submission to the supposed \$20 billion worth of proceeds to come from this sale process being, I suppose, shonky accounting. Maybe you do not use exactly those words, but you say the proposed \$20 billion does not add up. Part of that talks about the net proceeds of \$13 billion. Do you have any insight into what they mean by net proceeds of \$13 billion?

**Professor WALKER:** That is one of our concerns. I do not think this Committee has evidence before it indicating how the Government proposes to treat existing debt—whether it is going to assume the liabilities. I think mention was made that the private sector will be paying them off over time.

**The Hon. ROBERT BORSAK:** I asked the question of the Premier last Monday and I did not get a satisfactory answer. He did not know.

**Dr CON WALKER:** No.

**Professor WALKER:** No. I read the transcript of that and I am reflecting that. I have some real concerns. The UBS seem to have some inside knowledge about this. They said the leases will enable the Government to take the debt off the balance sheet. I wondered how that could possibly be so. I have a PhD in accounting and I cannot follow that. I can speculate. I think in the paper we speculate that there is talk of a holding entity being established. This was mentioned in one paragraph on a Government release in late December last year without any detail. I can speculate that possibly what is involved is that the Government will sell shares in the holding entity, which then act as the lessor. If the Government can argue that it no longer controls the company, it is no longer a subsidiary in the Government's balance sheet. So that would take the debt off the total public sector—you know, the total sector balance sheet debt would be reduced.

**The Hon. ROBERT BORSAK:** One would find it hard to believe that taking it off the balance sheet in an accounting sleight of hand would actually achieve that.

**Professor WALKER:** I agree, I agree. What I would just say is that one of the concerns I have, in the absence of full information to this Committee, which has onerous responsibilities—

**The Hon. ROBERT BORSAK:** We have not been told anything about the financial engineering in this exercise.

**Professor WALKER:** No. Well, one of the possibilities, though, is that the debt which is currently held in entities that are part of the public trading enterprise sector, not part of general government, would no longer be regarded as validly associated with the public trading enterprise sector because the Government no longer is operating those businesses.

**The Hon. ROBERT BORSAK:** No.

**Professor WALKER:** It is leasing them to someone else.

**The Hon. ROBERT BORSAK:** That is right.

**Professor WALKER:** So there is a possibility under certain circumstances that the Australian Bureau of Statistics might regard that debt as indeed now part of general government debt, which would actually increase general government debt by—what is it—\$80 billion.

**Dr CON WALKER:** No, the general government debt is \$30 billion.

**The Hon. ROBERT BORSAK:** It is \$20 billion.

**Professor WALKER:** Sorry, \$30 billion.

**Dr CON WALKER:** Close!

**Professor WALKER:** But it would certainly increase it. There is the risk, depending on how the transaction is structured, that the Government should be actually stepping in and making general government debt quite alarming. The rating agencies might take an interest in this.

**The Hon. ROBERT BORSAK:** In fact, it is my interpretation that if what the Premier was alluding to was true, then really what they should have been doing from an accounting point of view is adding the \$20 billion to the \$13 billion because they have actually got that. Someone else has assumed to the liability, other than them.

**Dr CON WALKER:** Well, you have got the three agencies slated for privatisation that have borrowings of \$15 billion. They also have accrued employee benefits of around \$1.4 billion. Who is going to take care of those things? Are they going to be part of the price? Is that the \$13 billion net of all those, which means that the actual implied sale price is something closer to \$30 billion?

**The Hon. ROBERT BORSAK:** That is right. That is my point.

**Dr CON WALKER:** That just does not make any sense, or there is not enough information for us to conclude anything from that.

**The Hon. ROBERT BORSAK:** One of the questions I did ask was also about that issue of employee benefits; that it did not suddenly find itself into a shell company with no assets.

**Dr CON WALKER:** That would be troubling, going by past experience.

**The Hon. ROBERT BORSAK:** It has happened before.

**Dr CON WALKER:** Yes.

**CHAIR:** Just following up that question and the answer you just gave, what do you estimate is the total debt that the three companies hold at the moment—their total debt?

**Dr CON WALKER:** As at 30 June 2014, Chair, the three agencies had total borrowings of \$15.2 billion.

**CHAIR:** That was \$15 billion?

**Dr CON WALKER:** It is \$15.2 billion.

**CHAIR:** Is that exceptional or would you expect that to be normal for the size of those companies?

**Dr CON WALKER:** Yes, they are commercial enterprises.

**Professor WALKER:** And they are highly geared, though.

**Dr CON WALKER:** And they are high yield and they are highly profitable, so they are paying their way. They do not rely on the budget; they pay their own way.

**Professor WALKER:** Their earnings are far more than the cost of borrowings so that is why they are so profitable.

**CHAIR:** In your submission you use the term that it is crazy to be selling assets that are producing such high rates of return. What are the high rates? Do you have different figures to the Government figures?

**Dr CON WALKER:** Yes.

**Professor WALKER:** I mentioned that; the rates of return, that is, profitability as a percentage of shareholders' equity. If these businesses were using private sector accountants such as used by every listed industrial company, two of them would be showing rates of return over 80 per cent per annum; that is a stunning rate of return.

**CHAIR:** Eighty per cent?

**Professor WALKER:** Eighty per cent to 82 per cent.

**CHAIR:** What is that in dollar terms?

**Professor WALKER:** That is a rate of return as a percentage. I cannot recall the figures immediately.

**CHAIR:** You said high rates of dividends, I just am wondering what you think are the high rates of dividends?

**Professor WALKER:** Listed industrial companies are doing pretty well if they make 20 per cent.

**CHAIR:** What is that in money terms?

**Professor WALKER:** A rate of return on shareholders' funds.

**CHAIR:** Have you calculated, though, what it is in money terms? There has been talk of \$1.7 billion per year?

**Dr CON WALKER:** The Government has received in dividends, and in tax equivalent payments, \$1.7 billion in the last two years—

**CHAIR:** Each year?

**Dr CON WALKER:** Each year, 2012-13 and 2013-14. That does not include the loan guarantee fees, which are in excess of \$300 million and it also does not include the retained earnings of these agencies which they spend on capital infrastructure and so on, so the \$1.7 billion is only a partial return to the Government from these agencies.

**The Hon. ROBERT BORSAK:** It is a financially disastrous deal?

**Dr CON WALKER:** Absolutely.

**CHAIR:** We have had evidence from the Government that they are reducing that dividend now down to possibly \$300 million a year?

**Dr CON WALKER:** As we have said, the amount of dividends paid by an agency into the budget is determined by negotiations between the Treasurer of the day and the agency. They come up with an agreement which the agencies then abide by.

**Professor WALKER:** It is expressed in a statement of corporate intent, which is filed in Parliament—partly it is confidential though and partly it is on the public record.

**Dr CON WALKER:** But it is partly on the public record. In our view if the State requires a certain amount of funds from these agencies they will get it, and they have. How many examples have we had in the past where, for example, under a previous Coalition Government we had Sydney Water paying special dividends when the Government required them to do?

**CHAIR:** Needed money.

**Dr CON WALKER:** That is the sort of thing you have.

**Professor WALKER:** Two lots of \$100 million.

**Dr CON WALKER:** Yes. All governments have done this kind of thing, and they can. That is what it is about. It is not up to the regulator to determine what dividends are paid by these agencies to the Government, as implied by some presentations here, which stated that because the regulator is reducing the revenues of these agencies there will be an automatic reduction in the dividends. That is not how it works. There is no automatic relationship between the dividends and the regulator's determinations.

**CHAIR:** Are you suggesting the Government is deliberately reducing the dividend to make its own case?

**Dr CON WALKER:** Well, it is deliberately stating that they will be very low. For what purpose? As previously stated, it is a contradictory position taken for a government that is trying to sell a valuable asset so it is a puzzling position to be taking. Whilst they are trying to sell an asset, if you want to maximise your sale

price, you do not then say that these agencies are a disaster and they will have no profits in the future, no revenues in the future. It just does not make any economic sense or financial sense.

**The Hon. TREVOR KHAN:** I go to the \$15.2 billion in debt you are saying that the entities hold. I think I am quoting you right—\$15.2 billion?

**Dr CON WALKER:** The borrowings of the three agencies as at 30 June 2014—and this is according to their annual reports—on page 24 of our submission—

**The Hon. TREVOR KHAN:** Sure, so are you able to divide it up into each of the entities?

**Dr CON WALKER:** Yes. If you go to page 24 there is a nice little table I compiled there.

**The Hon. TREVOR KHAN:** Could you just indicate what the borrowings are?

**Dr JOHN KAYE:** Which page was that?

**Dr CON WALKER:** Page 24 of our submission.

**The Hon. TREVOR KHAN:** Are you able to read it out?

**Dr CON WALKER:** Yes. Ausgrid, \$8,696.3; Endeavour Energy, \$3,767.7; TransGrid, \$2,738.5 million.

**The Hon. TREVOR KHAN:** Can we just go to the issue of the dividends. Do I take it from what you are saying that essentially a government can strip any amount that it likes out of a government-owned enterprise?

**Dr CON WALKER:** No, I am not making that grossly exaggerated statement.

**The Hon. TREVOR KHAN:** Well, you are not saying that it is in any way related to earnings, is that the case?

**Professor WALKER:** I think I commented earlier that it depends on the circumstances of each company and the projected cash flows arising from, say, capital works. Now that that cycle of expenditure is over, I would expect that there would be greater opportunity to request higher dividends.

**The Hon. TREVOR KHAN:** I will go back because I have got to say there seemed to be a difference in the evidence you gave from what Dr Walker gave as to the flexibility of the outcomes of the dividend flows?

**Professor WALKER:** I do not think there was any difference at all.

**Dr CON WALKER:** None at all.

**Professor WALKER:** I would not survive if there was a difference. I have been chairman of a State-owned corporation and I am aware of the processes and Betty has worked in Treasury. We are both aware of the processes and these levels of dividends are negotiated. Now sometimes the Government is really anxious to get cash into the general government sector so budget figures look a bit better—and both sides of government have done this. What we are saying, I suppose, is that there has been an alarmist story about how dividends are going to crash whereas as a not particularly creative accountant I could soon fix that by enhancing the reported profitability of the businesses and hence increase their profits and then there would be dividends available for distribution. Financing that may involve further borrowings in some circumstances; otherwise it may come from the substantial positive operating cash flows of these businesses and I note indeed that the Government's own budget papers see the need for a more efficient balance sheet, which is code for saying they should borrow more, so that would certainly fund extra dividends over time.

**The Hon. TREVOR KHAN:** I take it that you opposed the Carr-Egan proposals for the sale of electricity assets?

**Professor WALKER:** Yes.



**Dr CON WALKER:** We certainly did.

**The Hon. TREVOR KHAN:** And I take it you opposed the Iemma-Costa proposal as to sale of electricity assets?

**Professor WALKER:** Yes, and I think our critique has proved to be absolutely accurate as a consequence.

**The Hon. TREVOR KHAN:** So in terms of the electricity assets you have opposed them all the way along—

**Dr CON WALKER:** Since you ask the question, Mr Khan—

**The Hon. TREVOR KHAN:** I asked the question: you have opposed it all the way along?

**Dr CON WALKER:** If you are one of the MPs who has not seen our book, which we did distribute to members of Parliament when it came out in 2000, published by ABC—and we have copies for you again in case you have misplaced it—it is said in our book that we were critical then about the proposal that Mr Egan made at that time, and I would like to table this page, if not the whole book, if I may?

**CHAIR:** We can attach the book to your submission.

**Dr CON WALKER:** Thank you, Chair. At that time he said, "The sale of our electricity utilities would raise up to \$22,000 million." He made that statement and I make that comment because we caught the end of Mr Egan's appearance this morning—

**Dr JOHN KAYE:** He denied it.

**The Hon. ROBERT BORSAK:** His denial and supercilious approach to questioning.

**Dr CON WALKER:** —and he denied it. This was published in 2000 quoting Mr Egan, so he said that was what he was expecting to receive. We opposed it then; we opposed the Carr proposal, we opposed the Costa proposal and I think the sale that did proceed under Mr Roozendaal was found to actually cost the budget—and it is in our submission and it is in the budget papers more importantly—the overall privatisation at that time was an outright cost to the budget.

**The Hon. TREVOR KHAN:** I remember it well.

**Dr CON WALKER:** Yes, so that is the experience that the States has had in terms of electricity privatisation. One other thing, talking about contradictions, Mr Khan, I am interested in one on your side. As an enthusiastic supporter of this proposal, I have noticed during the hearings, I am wondering why is it that your party opposes the privatisation and has retained Essential Energy. If it is such a good thing to sell and privatise these assets, why is it not right for Essential Energy to be privatised?

**The Hon. TREVOR KHAN:** There are two things I can say in response to that: first, I am not here to answer your questions and, secondly, we will all leave that as one of the great mysteries of life.

**The Hon. CATHERINE CUSACK:** Professor Walker, I recall going back before the 1995 election that you were advising Bob Carr on his economic policy when he was opposition Leader and following that election he appointed you as chair, I think, of the Council on the Cost of Government?

**Professor WALKER:** I do not recall ever advising the Premier before the election. I was a commentator on State finances—I wrote an essay for a book after the election but I was not giving him advice before the election.

**The Hon. CATHERINE CUSACK:** I know there was a lot of criticism of the Greiner and Fahey governments?

**Professor WALKER:** Could I perhaps explain what that might have been? I have got a bit of a track record in commenting on government finances.

**The Hon. CATHERINE CUSACK:** I know you do.

**CHAIR:** That is why you are here.

**The Hon. CATHERINE CUSACK:** I know that Liberal-Nationals governments rarely please you.

**Professor WALKER:** I do not single out Liberal-National governments. The first commentary I ever wrote about public finances was attacking the Labor Treasurer at the time.

**The Hon. CATHERINE CUSACK:** Who was that?

**Professor WALKER:** Mr Booth.

**The Hon. ADAM SEARLE:** Ken Booth?

**Professor WALKER:** Yes, for having all these losses in one agency and not reflecting them elsewhere in TCorp and I was talking about “losses in limbo.”

**The Hon. CATHERINE CUSACK:** That was before Mr Greiner introduced accrual accounting?

**Professor WALKER:** Yes. That was one of my concerns about accrual accounting and Mr Greiner's approach because he was claiming that his new approach would show the truth about government finances and the like. What had emerged was that the State budgets, leaving aside accrual accounting for the moment, were only focusing on the results of the Consolidated Fund not the overall what we now call the general government sector. He was claiming that he had a balanced budget whereas Victoria had a massive deficit, whereas in fact if they were prepared on a comparable basis New South Wales had a higher deficit than Victoria. In fact, the following year New South Wales Treasury suddenly thought that was their idea and advanced to the Council of Australian Governments that we should standardise the way in which State governments, Commonwealth governments and Territory governments presented their budgets to cover what the Australian Bureau of Statistics determined as the general government sector. That would possibly be what you had in mind.

**The Hon. CATHERINE CUSACK:** One way or another, the Carr Government was sufficiently pleased that you were appointed as chair of Mr Carr's Council on the Cost of Government—

**Professor WALKER:** That is right.

**The Hon. CATHERINE CUSACK:** Which was an election promise?

**Professor WALKER:** I did not have any discussion with him before the election about it.

**The Hon. CATHERINE CUSACK:** What happened to the Council on the Cost of Government—

**The Hon. ADAM SEARLE:** I do not think it ended well though.

**The Hon. CATHERINE CUSACK:** Yes, and I wondered if you could talk us through that falling out you had with the Carr Government?

**Professor WALKER:** I had no falling out. The Council on the Cost of Government was set up for two years. In fact, it went for about—

**Dr CON WALKER:** Five years.

**Professor WALKER:** Five, when I was there. I think I got out of it after four years. I did not have a falling out at all. In fact, I was asked to take on another job for a while. I think it is fair to say that after three years the taste for criticisms of government financial practices somewhat evaporated because it was criticising their own practices. And I have to say it is very disappointing that some of the initiatives we proposed were not acted on immediately, although 10 years later I notice that your side of politics is advancing the idea that we

should focus on service delivery and cut back office processes and so forth—one of the things we identified. I notice, for example, that no-one could give us good information about where government money was being spent in government, partly because they had 27 different accounting systems none of which could speak to each other. I hope that has been improved. I do not know.

**The Hon. ROBERT BORSAK:** No.

**The Hon. ADAM SEARLE:** Given the state of the budget papers, I suspect not.

**The Hon. CATHERINE CUSACK:** Building on a point made by Dr Con Walker that governments have been pulling money out of these utilities, I recall before the 1988 election that before accrual accounting, the Department of Education ran out of money and teachers were actually being paid by Elcom cheques. I wonder if this practice of just pulling money out of bookkeeping is good for consumers and would not the transparency from a consumer point of view be greatly enhanced by stopping all these accounting practices and using debt in such a creative way to cook the books, as you have described, over a period of decades?

**Professor WALKER:** That is a pretty motherhood statement, I think. We would all agree that it would be good if there was transparency about government spending and where it goes.

**The Hon. CATHERINE CUSACK:** You have got a better chance, surely, of having transparency through the Australian Energy Regulator [AER] with privately owned players in that market?

**Professor WALKER:** We are switching topics suddenly. That is illogical to transfer—I thought you were talking about Government spending and then you say the AER. Do you think the AER should take over the Department of Education?

**The Hon. CATHERINE CUSACK:** I am talking about the way that Government-owned corporations, through book-keeping entries, have been pulling out money willy-nilly to cook the books, which, as I understand it, is pretty much what your evidence has been today. I am wondering where the consumer sits in all of this evidence.

**Dr CON WALKER:** No, we did not say it happened willy-nilly.

**The Hon. CATHERINE CUSACK:** You said that it is completely negotiable and if the Government wants more money, then they can negotiate that.

**Dr CON WALKER:** No.

**The Hon. ADAM SEARLE:** In fact the Government's own rules say it is by negotiation.

**The Hon. CATHERINE CUSACK:** I think you said that they can borrow money to fund higher dividends.

**Dr CON WALKER:** Who said that?

**The Hon. CATHERINE CUSACK:** I wrote that down. Dr Walker said that.

**Professor WALKER:** I said that, quoting the budget papers, which say that TransGrid could have a more efficient balance sheet, which is code for borrowing more or having less retained earnings—they have got excess retained earnings.

**Dr CON WALKER:** That is the Government's budget papers.

**The Hon. CATHERINE CUSACK:** Prior to that, when you were discussing what I understood was the malleability of dividend payments and in explaining why it is so difficult for you to give specific numbers, it is sort of like: how long is a piece of rope?

**Dr CON WALKER:** Can I summarise what I said because it seems to have been exaggerated?

**The Hon. CATHERINE CUSACK:** The statement was made, "The State should borrow to fund higher dividends."

**Dr CON WALKER:** We never said that. We never said they should.

**CHAIR:** Dr Walker wants to clarify what she said.

**Dr CON WALKER:** What I said was that the regulator can determine the overall revenue that the agencies are to receive in a particular period, but they cannot determine the line item spending of those agencies. That is a matter for the Treasurer and the agency to determine in negotiation. That is as far as I went.

**The Hon. CATHERINE CUSACK:** I am putting to you that it is better from an electricity consumer's perspective, because they are the ones ultimately who are meeting all of those amazing costs, for that relationship to be discontinued.

**Dr CON WALKER:** It depends on how profitable the particular agency you are looking at is at the time. You cannot say that you can never negotiate with any agency because it will be better not to. I think that is a silly statement.

**CHAIR:** Our time has run out. Thank you very much for coming and for your willingness to participate in numerous inquiries. I would like to put a question on notice. You spoke about setting up a holding company. You said that the Government could even sell shares in the holding company. Is that right?

**Professor WALKER:** I am speculating what the structure is. I think this Committee will not be fulfilling its responsibilities unless it gets clear and precise information from the Government about the structure to be used and the conditions of the lease. The devil is in the detail. Recall the State Bank of New South Wales sale? A parliamentary committee looked at that, but information was not forthcoming. It was only later that we learnt that the State was responsible for most of the bad debts on a \$13 billion loan book. We also did not know what discount rate was being used to calculate retention value because the consultants engaged by the Auditor-General suddenly, at the last minute, called that commercial-in-confidence and he was faced with pressure that if the deal was not signed in a few days the State would be up for millions in penalty. It was only later that we learned a headline figure of \$576 million was eroded by the State meeting the bad debts, which then got down to below \$100 million before the State budget papers stopped explaining what they were paying out in bad debt.

**Dr CON WALKER:** Basically the bad debts eroded the sale price.

**Professor WALKER:** A few years later when CML, the purchaser, on sold it to the Commonwealth Bank—

**The Hon. TREVOR KHAN:** Point of order—

**Professor WALKER:** —it was valued at \$2.5 billion.

**The Hon. TREVOR KHAN:** I have taken a point of order and Professor Walker can be quiet. We are going into territory that is well and truly beyond, and I ask that the evidence finish at this point.

**Professor WALKER:** Thank you. I am just saying the devil is in the detail.

**CHAIR:** Thank you very much for giving examples.

**The Hon. PETER PRIMROSE:** Have you ruled on the point of order? I think it is perfectly in order.

**CHAIR:** Yes it is.

**The Hon. PETER PRIMROSE:** I want to know what the conditions are; what is the structure.

**CHAIR:** Put that question on notice.

**The Hon. CATHERINE CUSACK:** It was government questions. I have more questions, too, but time has expired.

**The Hon. PETER PRIMROSE:** We are talking to the point of order. That is not out of order to be seeking that information.

**CHAIR:** All outstanding questions will go on notice to the witnesses. Thank you very much for coming.

**(The witnesses withdrew)**

**AMELIA CHRISTIE**, Manager, Research and Advocacy, Combined Pensioners and Superannuants Association of New South Wales, affirmed and examined:

**CHAIR:** Thank you for helping the inquiry. Would you like to make an opening statement?

**Ms CHRISTIE:** Combined Pensioners and Superannuants Association [CPSA] is a not-for-profit, non-party political membership organisation, founded in 1931, to serve the interests of pensioners of all ages, superannuants and low income retirees. We work to improve their standard of living and wellbeing and we have approximately 32,000 members across New South Wales through our branches and affiliate organisations. We are strongly against the privatisation of public assets, including the partial leasing of electricity assets in New South Wales. Electricity supply is an essential service that should remain in public hands and not be privatised for short-term profit gains. In the last financial year the number of disconnections were at a record high, almost 33,000, which is an increase of 32 per cent, despite the price increases being lower than they have been in recent years.

In New South Wales we would like to see an overhaul of the energy rebates so that they adequately support people to remain connected and ensure that they are not forced into hardship and have to sacrifice other essentials in order to pay their electricity bills. This is something that the disconnection data does not collect but CPSA hears about regularly from our members. Average bills in rural areas are now \$2,725 per year. For somebody living on a single pension, that amounts to 11 per cent of their income spent on energy bills, and that is factoring in the Low Income Household Rebate. For a job seeker who is living on Newstart, such bills make up 18 per cent of their annual income, again, factoring in the rebate. While network charges make up more than 50 per cent of bills, this means that no matter how energy efficient a household attempts to be, they are unable to reduce their bills. CPSA would like to see New South Wales move towards proportional concessions to provide eligible customers with a percentage-based rebate calculated on their final bill. This would assist low income households to keep up with rising prices and also alleviate, to a certain extent, the current inequities we see in the rebate system where people living in rural areas, for example, face higher bills relative to usage, yet are only able to receive the flat rate low income household rebate.

CPSA is concerned about the future of funding of this rebate and other rebates and concessions should the leasing go ahead. The income generated by the networks goes towards this funding and CPSA seeks assurances that should the sale go ahead that an ongoing funding stream will be identified for these concessions and others. The future of pensioner rebates and concessions in New South Wales have only been confirmed for a further three years since the cancellation of the national partnership agreement with the Commonwealth last year, so this is of key concern to people living on low incomes. While CPSA realises that a change of ownership does not alter the regulatory framework, evidence from past privatisation processes demonstrate that there is a real potential for the privatisation process to have an impact on the price people pay.

CPSA is concerned about where the risk to assets lie in the event of natural disasters, such as bushfires, and we fear that the New South Wales Government and, therefore, the New South Wales taxpayers would be left with the burden of risks should such an event occur while the private sector is able to reap the profits from the assets. This is what occurred in Victoria, where the State Government has had to underwrite the insurance of electricity assets and it is important that the New South Wales Government does not face similar liabilities whilst no longer receiving profits from full ownership. The sale of generators under the former New South Wales Government also cost New South Wales. The sale allowed the new owner to receive damages when the generators did not achieve the contracted available charges and the Government ending up paying for the shortfall.

Should the partial leasing go ahead, it is of vital importance that affordable housing be listed as a significant priority area for investment. Housing is essential infrastructure and should be included as such under the Restart NSW plan. The decline in available social housing is occurring in the face of increasing demand and adequate investment needs to be made to ensure that everybody is able to find housing that is affordable regardless of their income. I note that a memorandum of understanding has been signed for affordable housing, yet the outcome for this is far from certain. CPSA has many questions about where the money for such a fund will come from. While it is conditional on the leasing of poles and wires, none of the proceeds from the lease are earmarked for the fund. That is all I wanted to say as an opening statement.

**CHAIR:** What is your membership?

**Ms CHRISTIE:** It is 32,000 across New South Wales.

**CHAIR:** What is the break-up of pensioners and superannuants?

**Ms CHRISTIE:** The vast majority are full-rate pensioners. We do not ask people when they sign up, but the majority are living on a full-rate pension.

**The Hon. ADAM SEARLE:** What protections, if any, do you think would be appropriate to put in place if the privatisation proposal was to go ahead?

**Ms CHRISTIE:** We would like to see something similar to what happens in Victoria. They have the Consumer Utilities Advocacy Centre, which is a special body that advocates for consumers and also provides information. We would like to see some ongoing scrutiny from now until that happens. We think that we are in an important period of change in the electricity space. This is one aspect of it, and we should have a similar body. We realise there is the Public Interest Advocacy Centre which does some energy work, and we also have the Ombudsman as well, who tackles complaints, but what they usually do is look at the technical side or the complaints side. We really want a body that is able to simplify the information for consumers so that they can get the information they need and that it will also advocate on their behalf.

**The Hon. ADAM SEARLE:** We have had evidence before the Committee which suggests that while, for example, Victoria apparently has lower network prices, the total electricity price charged by the private retailers to customers puts average energy prices higher than in New South Wales so that whatever efficiencies or benefits that were gained by privatisation appear to have levelled out or have been trousered by the retailers. What protections does your organisation think should be put in place to ensure that the retailers in this State pass on the reductions in network costs?

**Ms CHRISTIE:** We would definitely like to see something in writing about that and also greater transparency on the process as a whole. We are concerned equally in New South Wales about an increased privatised market and that the consumers are losing out. The big selling point of privatisation for retailers has been that there is greater choice for people, and they will be able to shop around. At the end of the day, that is too difficult for a number of people, particularly those without internet access, those who have English as a second language and those with cognitive impairments. It is just not possible, and we do not have the protections in place that make it worthwhile. At the moment, you can shop around for the best electricity deal and lock yourself into a contract, but over the course of the contract, the price could increase and you would still face an exit fee should you wish to move and take your business elsewhere. We would like to see things like that close so that the prices cannot increase over the course of a contract and also that the exit fee for leaving is significantly lower. We have a cap of \$130 in New South Wales. In Victoria, it is \$20. We cannot understand why there is a difference. Also, it negatively affects people who are in insecure housing. They might not have a choice whether they move and are then hit with the fee.

**The Hon. ADAM SEARLE:** I think there is something like 13, or a slightly more number of licensed retailers in New South Wales, but only about four are in the marketplace. The Energy and Water Ombudsman in successive annual reports—

**The Hon. CATHERINE CUSACK:** It was 30.

**The Hon. TREVOR KHAN:** The evidence was 30.

**The Hon. ADAM SEARLE:** I thought that was Australia-wide.

**The Hon. TREVOR KHAN:** The evidence before this Committee is 30.

**The Hon. ADAM SEARLE:** It was only a small number. According to the Energy and Water Ombudsman's most recent annual report, there is only a handful meaningfully engaged in the New South Wales market—

**The Hon. Dr PETER PHELPS:** If you have 16 fingers that is a handful.

**The Hon. ADAM SEARLE:** I am trying to ask a question and it is in order.

**The Hon. Dr PETER PHELPS:** I am simply checking whether she has 16 fingers, because that is the number of retailers in the New South Wales market.

**The Hon. ADAM SEARLE:** The Energy and Water Ombudsman in this State has said in a number of annual reports, including the most recent report, that there is no real competition in the retail market in New South Wales. What protections does your organisation see as being necessary to protect the interests of your members?

**Ms CHRISTIE:** We would like something to be mandatory in terms of how companies express energy pricing. It should be easily comparable. At the moment companies offer different discounts, but the kilowatt rate per hour does not match up. People cannot make easy comparisons. There is no regulation stating that companies must provide the per kilowatt hour rate and make it clear. People get bogged down in the detail and cannot make an accurate decision about which is in their best interests, particularly in the face of salespeople. This ends up in the too-hard basket for many people, particularly when they have other things going on in their life. They are not able to work out accurately the best deal and that makes it not worth it, particularly if the price changes over the course of the contract.

**Dr JOHN KAYE:** You would have a number of members who would depend upon electricity to save their life or to support their ongoing existence.

**Ms CHRISTIE:** Yes, we have some people on the life support rebate.

**Dr JOHN KAYE:** Have they at any stage expressed concerns about privatisation to you?

**Ms CHRISTIE:** I have had calls from members concerned about privatisation. I cannot say specifically, but I can look at the figures to determine the number of calls we have had recently about the life support rebate.

**CHAIR:** Have you conducted a survey of your members' views?

**Ms CHRISTIE:** Not about the poles and wires sell-off. However, we log all the calls to the office and we did a survey recently. I will check whether we asked any questions about electricity.

**Dr JOHN KAYE:** You will take that question on notice.

**Ms CHRISTIE:** Yes.

**Dr JOHN KAYE:** Do you as an organisation have concerns about what privatisation might mean for some of your members who are on life support systems?

**Ms CHRISTIE:** In terms of reliability?

**Dr JOHN KAYE:** First in terms of reliability, and secondly in terms of costs.

**Ms CHRISTIE:** We definitely welcomed the recent increase in the life support rebate. That is certainly welcome. There are questions about what will happen if we move away from the reliability settings that we have at the moment and what that will mean for people. We need to ensure that there are adequate provisions so that in the event of storms or unexpected blackouts these people are still able to access electricity and their electricity is turned on before anyone else's.

**Dr JOHN KAYE:** The Premier's and the Government's submissions talk about appointing Professor Allan Fels as the price commissioner and state that he will sign off at the time of the lease transfer, and it will not result in an increase in prices compared with 2014. What does your organisation make of that promise? Does it give you any sense of security about the outcome?

**Ms CHRISTIE:** Our concern is whether the costs of privatisation will be passed on in the long term and whether that it is only for one year. The key concern is that there is not a lot of detail. We are making a lot of assumptions about the future costs. We need a structure to be in place to ensure that even with the AER we know what will happen. We cannot understand how such a promise can be made when the costs are determined by the regulator versus the Government.



**Dr JOHN KAYE:** The other aspect of this is that, as you know, the Government sets the reliability standards. Do you have concerns about a government setting the reliability standards where it is no longer the owner of the networks and therefore is independent from or less politically connected to the outcomes?

**Ms CHRISTIE:** Yes, we do have a concern about that.

**Dr JOHN KAYE:** The Government also talks about the terms of the lease and says that there can be a step-in operator if something goes wrong and if for some reason the leaseholder violates the licence or goes bankrupt. What is your organisation's approach to that? Is that a sensible outcome? If there is a financial catastrophe, is it appropriate that the Independent Pricing and Regulatory Tribunal be able to appoint another operator? Does that make sense to your organisation?

**Ms CHRISTIE:** We can see why that protection is there. Some people say that that is a good thing from our members' perspective. However, the concern is that the Government is financially liable for something from which it is no longer generating income. We are concerned about the New South Wales Government and the taxpayers taking on that financial risk while they are not seeing the benefit. That happened in Victoria and it could well be the case here. We are concerned about New South Wales as well. We had floods and storms recently and we would not want to be liable for the repairs without getting the benefits and profits from the networks.

**Dr JOHN KAYE:** In respect of that, is it your organisation's opinion that a publicly owned utility will be better at responding to floods and storms and getting customers reconnected?

**Ms CHRISTIE:** Yes.

**Dr JOHN KAYE:** Why do you think that is so?

**Ms CHRISTIE:** We are very sceptical of any privatisation of public assets. We do not believe it is a good deal for the consumer, and particularly low-income people.

**Dr JOHN KAYE:** Would it be fair to say that most of your 32,000 members are on low incomes?

**Ms CHRISTIE:** Yes.

**Dr JOHN KAYE:** And they are therefore vulnerable to changes in electricity prices.

**Ms CHRISTIE:** Yes. The experience we have seen recently has definitely demonstrated that. When there were huge price rises a few years ago we were inundated with calls. It is particularly concerning for low-income people because they are not able to purchase more energy-efficient appliances that would lower their bills or they are in housing that they cannot adequately insulate because they cannot afford it or they do not have control because they are renting.

**Dr JOHN KAYE:** Is it true that your members would be some of the citizens who would be most vulnerable to changes in the electricity industry?

**Ms CHRISTIE:** Yes, definitely. If it results in higher prices, that would be a key concern. The loss of protections is also important. In many instances these people cannot even read their bills. We get calls from people trying to decipher their bills, to get on a hardship charter with their electricity company or simply to get the rebate applied. They cannot easily negotiate that. They need their bills to be in plain English so that they have this information. They are often not the kind of people who can do research.

**Dr JOHN KAYE:** Let us accept for a moment that this privatisation will remove a source of revenue of perhaps as little as \$300 million or as much as \$1.2 billion or more when we include the tax equivalent payments. Can your organisation identify somewhere in the budget that we can cut that expenditure?

**Ms CHRISTIE:** It is not up to me to decide that. However, we would be very concerned if any of the concessions were cut. We know that they are funded through the electricity networks. The New South Wales Government also lost funding from the Commonwealth last year that provided about 10 per cent of the concessions. It has already faced the loss of some revenue for concessions. We want to ensure that they remain

because they are vital for people living on low incomes to pay for essentials. It is not only about electricity; it also about council rate rebates, transport and car registration.

**CHAIR:** I would like to follow up the questions regarding the cost of electricity. Did the Victorian privatisation lead to a lowering of prices for people in that category of pensioners?

**Ms CHRISTIE:** The Victorian system makes it easier for people to get information. It also has proportional rebates. People get a rebate on their bills at 17.5 per cent. We would like to see that in New South Wales. It affects people who have higher bills, particularly those who cannot reduce their electricity consumption if they have medical equipment or they are in a rural area. We want to ensure that a decent proportion is taken off their bills. I am not familiar with the Victorian system because ours is a New South Wales based organisation. However, when I have dealt with our counterparts in Victoria they have explained to me that at the time of privatisation the Government introduced a range of consumer protections, including the Consumer Utilities Advocacy Centre, which oversees the consumer side of things.

**CHAIR:** The Committee understands that the prices went down

**Ms CHRISTIE:** Yes.

**CHAIR:** You speak as though you are assuming that if the privatisation went ahead in New South Wales prices would not go down; in fact, they could even go up.

**Ms CHRISTIE:** We could not say what will happen with prices. We are hearing from both sides that they could up or down. We are concerned about what protection will be provided to ensure that prices will remain stable. A price guarantee has been given, but we are not sure what will happen in the longer term and whether the lessee will factor that into future costs that ultimately will be borne by the consumer.

**CHAIR:** If it could be proved to you that prices would go down, would your organisation be more sympathetic to the privatisation?

**Ms CHRISTIE:** We would be happier if adequate consumer protections were put in place. However, our members are against the privatisation of public assets, including the poles and wires.

**The Hon. Dr PETER PHELPS:** Even if it makes it cheaper?

**Ms CHRISTIE:** If there were guarantees that might sway some people. We would have to do a survey of our members.

**The Hon. CATHERINE CUSACK:** But you have never done that, have you?

**Ms CHRISTIE:** We have surveyed our members, but not specifically about the poles and wires. It is based on our policy that we oppose the privatisation of public assets.

**CHAIR:** That is why I asked whether your members may be responding in a negative way out of fear that prices will increase.

**Ms CHRISTIE:** That may be the case.

**CHAIR:** Is there any indication that if the privatisation went ahead the rebates would be cancelled in New South Wales?

**Ms CHRISTIE:** Yes. There is a big question mark around that. The New South Wales Government has confirmed the future of the rebates that were affected by the cessation of the national partnership for three more years. However, beyond that point we have no confirmation about what will happen to the concessions. We would like to find out from the Government what alternative income stream would be used to continue the funding should the leasing go ahead because that is not factored into the \$20 billion.

**CHAIR:** You would like the rebates to be guaranteed for more than three years.

**Ms CHRISTIE:** Yes. That is a key issue for our members. They want the funding of those rebates to be continued for the longer term. They also want an overhaul to ensure that some of the rebates are proportional, particularly council rate rebates and the low-income household rebate for energy bills.

**The Hon. DAVID CLARKE:** Did I understand you to say that your organisation had not sought the views or carried out a survey of members in respect of the Government's privatisation proposal?

**Ms CHRISTIE:** If we had had more time we would have been able to do that. However, because it was such a tight turnaround we have not been able to do so.

**The Hon. DAVID CLARKE:** Are these views yours or your committee's rather than the views of your members?

**Ms CHRISTIE:** The Combined Pensioners and Superannuants Association of New South Wales has a longstanding policy about the privatisation of State assets in general, but particularly anything related to electricity. Members expressed concerns when the generators were privatised and about transport. It is across the board. It is definitely coming from members. We have had calls to the organisation.

**The Hon. DAVID CLARKE:** But those member views are not about this Government's electricity proposal. That is a very specific proposal and you are not getting a response from your members on that; are you?

**Ms CHRISTIE:** No, we are getting a response from the members.

**The Hon. DAVID CLARKE:** In an organised way? Have you had a survey or are you going from telephone calls and so forth that you are receiving?

**The Hon. CATHERINE CUSACK:** This was announced in September last year.

**Ms CHRISTIE:** We have not done an organised survey on it, no.

**The Hon. DAVID CLARKE:** Dr Kaye asked you whether you were sceptical of a privatised industry responding to things like floods and natural catastrophes. Do you remember that?

**Ms CHRISTIE:** Yes.

**The Hon. DAVID CLARKE:** You said that you are sceptical. You were asked why and you gave an answer. I could not understand the relationship of your answer to that question. You said you were sceptical of the privatised industry. Why?

**Ms CHRISTIE:** No, what we are concerned about is what happened in Victoria post the Black Saturday bushfires. The Government was liable for the insurance of the poles and wires, despite not receiving the income anymore. We are concerned that should something similar happen in New South Wales ultimately it would be the taxpayer who is responsible for taking the risk for the poles and wires without seeing the benefit from the income. Our concern is that ultimately it will be left to the New South Wales Government and the taxpayers to fix the poles and wires or be liable financially should something happen to them. We have not seen the detail in the lease agreement to say that that will not be the case. That is a key concern.

**The Hon. Dr PETER PHELPS:** In your testimony you mentioned the large number of disconnections. Did you say there were a record number of disconnections?

**Ms CHRISTIE:** Yes, according to the Energy and Water Ombudsman NSW [EWON] it has gone up to almost 33,000—32,940 last year. That was an increase of 32 per cent.

**The Hon. Dr PETER PHELPS:** This is happening under the current glorious regime of State Government ownership?

**Ms CHRISTIE:** Yes, it is happening at the moment.

**The Hon. Dr PETER PHELPS:** State Government ownership is seeing a record number of disconnections?

**Ms CHRISTIE:** Yes, it is a record number.

**The Hon. CATHERINE CUSACK:** It does not reflect well, does it?

**Ms CHRISTIE:** What it does reflect is that people are still struggling with it. We had a huge spike in price increases that have tapered off, but we are still seeing people struggling to pay their bills. Importantly, CPSA members are more likely to be age pensioners, and from what they are telling us, they are likely to forgo other essentials to pay their bills. They are not getting disconnected but they are experiencing hardship—cutting back on food and medications, not using their cars—to pay their electricity bills. They are not reflected in the figures.

**The Hon. Dr PETER PHELPS:** Those bills have gone up because of the goldplating over the last 20 years, which has been engaged in by the state-owned electricity industry. Is that correct?

**Ms CHRISTIE:** I could not comment on that.

**The Hon. Dr PETER PHELPS:** Would you agree with research and, indeed, the former Prime Minister of Australia Julia Gillard when she indicated that 70 per cent of the increases in the bills had been directly attributable to excessive capital expenditure by those networks in New South Wales?

**Ms CHRISTIE:** I could not comment on that.

**The Hon. Dr PETER PHELPS:** If you were to assume that that is correct—and I have no reason to believe the former Prime Minister was misleading the public when she said that—would that not tend to indicate that people in your constituency have been paying, probably excessively, for that expenditure by state business enterprises?

**Ms CHRISTIE:** I could not comment on that. I am not an expert on electricity and I do not claim to be. Electricity is one issue among many that our members are concerned about. It is a cost-of-living issue for them and a key concern, but I am not looking into the details of goldplating, for example.

**The Hon. Dr PETER PHELPS:** The ACCC chairman, Rod Sims, has claimed that:

NSW electricity prices would now be significantly lower had the NSW electricity network assets been privatised.

On Friday last week, the Committee heard from the Energy Market Commission that made similar claims. If these claims are correct, would a private lease be beneficial to the community you represent?

**Ms CHRISTIE:** If they were correct then lower prices would be beneficial for our members, but he has also said it is all predicated on how privatisation is done. We need to make sure that there are adequate safeguards in place to ensure that lower-income people do not lose out. We as the public have not been able to see what is in the leasing documents. While we understand that some things would be business-in-confidence—the financials—we cannot assume that there are going to be adequate protections in place on a whole range of issues without being able to see what it looks like.

**The Hon. Dr PETER PHELPS:** I am a bit confused about your testimony. Earlier you said that your organisation is opposed to privatisation per se.

**Ms CHRISTIE:** Yes.

**The Hon. Dr PETER PHELPS:** In that answer you said that you would not be opposed to privatisation if it had a beneficial impact on prices paid by your communities.

**Ms CHRISTIE:** No, that is not what I am saying.

**The Hon. Dr PETER PHELPS:** Basically, it can have the best possible financial impact on your communities and your organisation is still going to be opposed to privatisation?

**Ms CHRISTIE:** As a general, rule that is what the members put forward to us so that is what I am stating today. They are concerned about that. Obviously, if there were an actual guarantee then I am sure it would sit better with people. If we knew that there were adequate protections in place in terms of risk and things like that then that would also be the case. But given that we do not have that and—

**The Hon. CATHERINE CUSACK:** Yes, you do. There is a guarantee.

**Ms CHRISTIE:** For?

**The Hon. CATHERINE CUSACK:** Price reduction.

**The Hon. ADAM SEARLE:** For how long?

**Ms CHRISTIE:** For how long and how can that be guaranteed if it is up to the regulator?

**The Hon. CATHERINE CUSACK:** There is a guarantee.

**The Hon. Dr PETER PHELPS:** The position of your members is that even if privatisation is materially advantageous for their personal prospects, they are still opposed to privatisation on ideological grounds. Is that a rational position?

**Ms CHRISTIE:** To an extent, yes, that is what would happen with some of the members, not all of the members.

**The Hon. Dr PETER PHELPS:** That would work against their own interests.

**Ms CHRISTIE:** Through previous experience, their view is that privatisation has not dealt them a good hand and has not resulted in a better deal for lower-income people.

**The Hon. DAVID CLARKE:** But you have not done a survey of your members on this.

**The Hon. ADAM SEARLE:** Point of order: You have two government members jumping all over the witness and not allowing her to answer.

**The Hon. Dr PETER PHELPS:** After the privatisation of Qantas, are airfares in real terms cheaper or more expensive than they were?

**Ms CHRISTIE:** Airlines are not an essential service so I could not comment on Qantas.

**The Hon. Dr PETER PHELPS:** When the Commonwealth Bank was privatised, did real interest rates go lower or higher?

**Ms CHRISTIE:** I do not see how that is relevant or how I could be expected to answer.

**The Hon. Dr PETER PHELPS:** I am testing your assertion that all privatisations have had a materially detrimental effect on consumers.

**Ms CHRISTIE:** They are concerned about essential services.

**The Hon. Dr PETER PHELPS:** When the ferries on Sydney Harbour were privatised, were the on-time running rates better or worse than they were under government control?

**Ms CHRISTIE:** Members are most concerned with costs. I understand ferries are going back under government control.

**The Hon. CATHERINE CUSACK:** That is incorrect. In your opening statement you said members were opposed because it is an essential service. Are the delivery of gas, funerals and disability taxis essential services for your members?

**Ms CHRISTIE:** For those who use gas, yes, it is an essential service, but you can operate with electricity. That is why while we welcome the—

**The Hon. CATHERINE CUSACK:** Is gas an essential service or is it not really?

**Ms CHRISTIE:** Yes, it is an essential service but no-one runs just off just gas; they also have electricity.

**The Hon. CATHERINE CUSACK:** We would have no gas supply without private sector investment. Would your members prefer nationalisation of the gas industry?

**Ms CHRISTIE:** We have not asked them that.

**The Hon. CATHERINE CUSACK:** What about the funeral industry? These are examples of essential services provided by the private sector with strong consumer advocacy from government, as happens in Victoria.

**Ms CHRISTIE:** Certainly, on the issue of funerals, they would like to see a government funeral provider. There are a lot of issues in the funeral industry, and consumers are getting a very poor deal. There is limited regulation of the costs, so in that respect they would definitely like to see that.

**The Hon. CATHERINE CUSACK:** Your members would like a government undertaking?

**Ms CHRISTIE:** Yes, we have done extensive research on funerals.

**The Hon. TREVOR KHAN:** Point of order: We have had a full round of questions with time allocated to each of the groups and we have ended up with extra time because one of the groups did not use all their time. I am not critical of them, but surely the crossbench having taken up their time and government members having taken up our time, this witness's questioning is at an end.

**The Hon. ADAM SEARLE:** The alternative approach is that if there is time left, anybody can use it.

**CHAIR:** That is what I am doing. Do crossbench members have questions?

**Dr JOHN KAYE:** It has been said that you having not surveyed your members is a bad thing. What is the CPSA's policy formation process? Who writes your policies—your executive, a council meeting or what?

**Ms CHRISTIE:** We have a very consultative process. Anything that becomes policy of CPSA comes into the executive from the members and the branches. We have an annual conference and the proposals that are put forward, either by individual members or from branches, are voted on both individually within the branches to ensure members are all happy with them, and they go to conference where delegates vote on them the way branch members want them to. We get a majority at the conference and that is how our policy is formed. The policy staff do not decide what is happening.

**Dr JOHN KAYE:** Your policy process is not that different to that of a political party. I presume it is true in the Liberal Party and The Nationals that members through delegates get an opportunity to determine a position.

**The Hon. TREVOR KHAN:** Do not assume that that is how we do it, because it is not.

**Dr JOHN KAYE:** Is it fair to say that your organisation's opposition to privatisation is a reflection of the members' opinions through that process?

**Ms CHRISTIE:** Yes.

**Dr JOHN KAYE:** Has that been challenged? Has a group of people in the CPSA said it supports privatisation?

**Ms CHRISTIE:** No, and if they wanted to they could bring that up. Policy is evolving and that has not come up. In fact, it has been reaffirmed at various conferences.

**Dr JOHN KAYE:** When was it last reaffirmed?

**Ms CHRISTIE:** I would have to get back to you on that.

**Dr JOHN KAYE:** Please take that on notice.

**Ms CHRISTIE:** Yes.

**CHAIR:** Thank you for attending and answering questions. My observation is that your members are mostly retired working class people who have a negative attitude to privatisation of public assets that belong to the people.

**Ms CHRISTIE:** Yes.

**(The witness withdrew)**

**(Short adjournment)**

**GLADYS BEREJKLIAN**, Treasurer, and Minister for Industrial Relations,

**PHILIP GREGORY GAETJENS**, Secretary, NSW Treasury, and

**TIMOTHY JOHN SPENCER**, Deputy Secretary, Commercial Group, NSW Treasury, affirmed and examined:

**CHAIR:** I welcome the next witnesses: the Treasurer and Minister for Industrial Relations, Mr Philip Gaetjens, Secretary, NSW Treasury, and Mr Tim Spencer, Deputy Secretary, NSW Treasury.

**The Hon. Dr PETER PHELPS:** I declare a prior professional relationship with Mr Gaetjens.

**CHAIR:** If there are no other confessions, we will start with an opening statement from the Treasurer.

**Ms GLADYS BEREJKLIAN:** I thank the Committee for the opportunity to make an opening statement. I am very pleased to be here today. As the Committee is well aware, in June last year the New South Wales Government announced Rebuilding NSW. This is our plan to invest \$20 billion in new infrastructure. We said we would fund this by recycling the proceeds of a 49 per cent lease of the New South Wales electricity network businesses. It is important to note this because it means the Government has now been speaking with the people of New South Wales about this issue for about a year, including very robust debate during the recent election campaign. Of course the general issue has been around for some decades but specifically we have been having an open and frank conversation with the people of New South Wales for about a year, including a robust election campaign. During that period and through this inquiry the Government has provided a detailed, transparent, fact-based and compelling case for why this plan is in the best interests of this State, and that is what brings us all here together today. The Government believes very strongly that this is in the best interest of the people of New South Wales.

Every aspect of our plan is backed by evidence and research. It has been publicly supported by some of the best minds in Australia from all sides of the political divide. I accept from the outset that we can never expect 100 per cent agreement on every major decision a government takes. However, there is no doubt that the vast majority of experts and commentators strongly support the Government's position, and that is on top of the mandate we received at the election in March. I note that even during the course of this inquiry a number of issues raised by the Labor Party during the campaign have proven to be unfounded.

As the Committee has heard, leasing the State's electricity businesses means billions can be invested upfront to improve the quality of life of every person in this State; and that is what governments are elected to do. Proceeding with this plan is by far away in the best interest of the State. Every person in this State will be better off, whether they live in our cities or in the regions. I will recap some of the benefits of the Rebuilding NSW. We all know that traditionally governments have struggled to meet the growing infrastructure needs of today—let alone meeting and planning for the needs of the future. Rebuilding NSW offers a once-in-a-generation opportunity to make that difference and to not only plan for today but also make sure we have the infrastructure in place for future generations.

Analysis by Deloitte Access Economics, which I know the Committee is aware of, shows that the Rebuilding NSW plan will boost the State's economy by almost \$300 billion and deliver an additional 122,000 full-time jobs by 2035. It is very important to note the positive impact on the economy our proposal will have. What we will do is lease only 49 per cent of poles and wires business to the private sector. The lessees will pay the Government rent, and they will pay it in advance. This means we can spend \$20 billion to build new assets, which will be owned by the people of this State. These are new assets we currently do not have—new roads, rail lines, hospitals, schools and vital water infrastructure in our regions as well. Again, these new assets will be owned by the State. All the electricity assets which are the subject of this inquiry will remain in public ownership but the people of New South Wales will get the additional infrastructure they need to make our communities, our regions and our cities better places to live in.

As outlined by the Premier, we know that by 2020 the cost of congestion will be more than \$8 billion a year. After four years in government, we have demonstrated that the New South Wales Coalition has a proven record of being adept at infrastructure recycling—with the successful sale or long-term lease of generators, the desalination plant, Port Kembla and the Port of Newcastle. Net proceeds have been invested in Restart NSW and construction of new, productive infrastructure is underway as a result. The long-term lease of Port Kembla in the



Wollongong region is an example of how asset recycling can benefit local communities—in this case the communities of Kiama, Shellharbour, Shoalhaven, Wingecarribee and Wollongong. Similar examples can be found in other regions of New South Wales. At the end of the lease the port is still owned by the people of the Illawarra and New South Wales—in addition to the vital infrastructure the recycling of the asset will deliver to the people of that region.

The benefits of asset recycling are compelling. Using the lease proceeds rather than new debt to pay for infrastructure allows our couple expenditure to grow while containing absolute growth in State debt. This reduces risks and underpins our ability to maintain the State's triple-A credit rating, which is very important. A dramatic increase in borrowings, as suggested by Labor during the recent election campaign, would raise financial risk and put the State's credit rating in danger.

Currently, for example, the network businesses comprise 11 per cent of the State's assets yet account for half of its net debt. The businesses total borrowings are estimated to reach approximately \$21 billion in 2014-15. The proposed transaction the Committee is considering will result in the repayment of the State's debt for the three businesses. The only alternative to asset recycling is to not build things and not do things, and that is not an option for a good government. Governments are elected to make decisions to improve the situation of the people of New South Wales.

In relation to electricity prices, I know the Committee has heard from numerous witnesses about this issue. It is an important one which I would like to return to now. Again as the Committee has heard, the Australian Energy Regulator [AER] will continue to regulate prices regardless of whether those assets are government or privately operated. So it does not matter who is involved in the operation; the AER maintains an ongoing important responsibility in relation to regulating prices. Leasing the network businesses will put further downward pressure on electricity prices for consumers, and this is critical. As the Committee has already heard, real networks prices have fallen 17 per cent and 18 per cent in South Australia and Victoria since those networks were handed to the private sector in the late 1990s. Over the same period, and I know the Premier had a very impressive slide on this issue, real prices have risen by 122 per cent in New South Wales and 140 per cent in Queensland under Government management.

It is worth bringing to the attention of the Committee the multiple reports, expert opinion and stakeholder buy in of people and organisations that support the Government's position in regard to the overwhelming benefits of proceeding with the poles and wires transaction. Some of these organisations and individuals include: Ernst and Young, the Productivity Commission, Australian Competition and Consumer Commission Chairman Rod Sims, UnitingCare Australia, the Council of Social Service of NSW, the Grattan Institute, Frontier Economics, the Energy Users Association of Australia and indeed former premiers and treasurers on both sides of the political divide.

In addition to the compelling evidence on the impact private operators have in keeping downward pressure on prices, the Premier has made a clear commitment that the successful bidder for the network leases will be required to sign a price guarantee that total network prices will be lower in 2019 than they were in 2014. The Premier made this very clear when he appeared before the Committee. Central to that commitment is the appointment of Professor Allan Fels as electricity price commissioner. He will report to the Government to confirm that the long-term lease will not put upward pressure on prices in the short, medium and long term. Without the sign off of Professor Fels, these transactions will not go ahead. We cannot be any clearer than that.

I also want to comment briefly on safety. At his appearance before this inquiry, the Premier also announced, and this was an additional safeguard, that the lessees of 49 per cent of the poles and wires will be required to hold a licence. The licence will impose strict conditions on electricity network businesses and protect the interests of the State and consumers. Breaches of the licence conditions and other obligations will attract maximum penalties up to 35 times higher than those currently faced for safety and other breaches. In short, the licences will give the State control over the suitability and capability of the network operators. They will require a continued substantial operational presence in Australia and set conditions to manage business continuity, reliability, network performance and safety.

As the Committee has heard, the Independent Pricing and Regulatory Tribunal will be empowered to ensure compliance with all the licence conditions, including safety and reliability standards. It will appoint inspectors for electrical installations and equipment and investigate any serious electricity network accidents. Also the Minister for Industry, Resources and Energy will be given new powers to step in should a breach of licence or electricity regulatory obligations threaten the safe, secure or reliable supply of electricity.

It has been shown that customers in Victoria and South Australian have benefited in terms of service levels, which are critical, in addition to lower network prices, under greater private sector involvement. In New South Wales the network businesses have obligations set in law regarding the safety and reliability of the electricity network. As the Premier has foreshadowed and I am pleased to reiterate today, these safeguards will be maintained and strengthened during the course of this process.

In relation to jobs, we all know the AER's determination means there will be significant changes to the workforce of the businesses that are set to be leased. This change in circumstances or job losses would have to occur regardless of whether the poles and wires transaction proceeds, and that is important point. Employees transferring to the new operator will do so on current terms and conditions as outlined in their enterprise bargaining agreements—as well as being the subject of further discussions.

In relation to dividends and taxes, there has been much debate and commentary around dividends and tax equivalent payments generated by the network businesses. I will take this opportunity to reiterate some facts. Historically, dividends and taxes, collectively distributions from the businesses, have varied significantly—they have not been consistent. The claim by the Labor Party that the Government will lose \$1.7 billion in dividends as a result of leasing 49 per cent of the network is completely misleading. As the Government has said many times, supported by publicly available data, the current income stream from the network businesses is far from guaranteed and is currently declining anyway. That is a statement of fact. In any event, we state very clearly that the upfront benefits of the transactions plus the increased economic activity the transactions will generate far outweigh any perceived income risks. It is important to state that the benefits of the transactions upfront and the increased economic activity that the transactions will generate will far outweigh any perceived income risks.

In terms of the value of the existing assets, that is also by no means assured. Arguably there is a greater risk to taxpayers if we do not ensure greater involvement by the private sector in these businesses. Now is the time to proceed with these transactions. There is very strong global and domestic interest in regulated electricity distribution and network assets and parties interested in bidding for these assets will take a 99-year investment horizon well beyond the AER's five-year window. That is an important point: The potential bidders will be looking at the 99-year returns not just at a five-year window like the AER. As has been mentioned by many others, the cancellation of the proposed Queensland asset sales has intensified interest in New South Wales and, we believe, competition in the market.

The New South Wales Coalition Government does have a strong record in achieving higher than expected outcomes in asset recycling, most notably, as I mentioned earlier, the successful long-term lease of the New South Wales port businesses, the results of which substantially exceeded expectations. It is also fair to say that the current low interest rate environment further advances the investment proposition. So as far as we are concerned, not only are the opportunities ripe but the conditions are also ripe for the Government to proceed at this point in time. In relation to the legislation, we are obviously committed to introducing enabling legislation as soon as possible and as soon as the Committee deliberates on its final considerations of this inquiry.

If I could just reiterate in closing that New South Wales has waited decades for this opportunity and we believe the time is right and the conditions are right. The Government has been prosecuting this case publicly for about the last 12 months and we have also done this through the very robust process of an election campaign. We have the support of experts, highly regarded commentators from all sides of the political aisle, as well as strong backing from the community, as evidenced by the election result. This is a once-in-a-generation opportunity for the people of this State. Whether for our citizens living in rural and regional areas or whether in our cities, everybody will be better off should we proceed with these transactions. We simply cannot let this opportunity pass, and we believe very strongly as a government that we have the mandate and that is our responsibility to do what is right by the community and we seek the Committee's consideration in allowing this to happen.

**The Hon. ADAM SEARLE:** After the Premier gave his presentation last Monday there was a New South Wales Government submission that was filed with this Committee. Was that prepared by Treasury? Can you speak to that submission?

**Mr GAETJENS:** Treasury made contributions to it.

**The Hon. ADAM SEARLE:** The report talks about the transaction being expected to exceed the retention value. In developing what you think the retention value is, have you factored in not only the dividends

and the tax equivalent payments but have you also included those things that are referred to at page nine, that is, the loss of a government fee from the businesses that compensate the State for the risk of guaranteeing the network's debt? You have identified that as the largest component of the loss of revenue. Has that been included in the retention value calculation?

**Mr GAETJENS:** No, it has not, and that is simply because as part of the transaction the Government is losing a risk on the balance sheet, and coincident with the loss of the risk is the loss of a fee from the businesses to the general government sector for that use of the balance sheet.

**The Hon. ADAM SEARLE:** But, nevertheless, in this Government submission you have identified the loss of that fee as the largest loss of revenue from the transaction. That is correct, is it not?

**Mr GAETJENS:** Yes, commensurate with the loss of risk.

**Ms GLADYS BEREJIKLIAN:** But that is offset by the loss of risk and is far outweighed by the benefits which the State would receive in terms of the money upfront, the growth in the economy, paying off debt and also the additional revenue streams which the growth in the economy provides. That is more than offset by those other factors.

**The Hon. ADAM SEARLE:** But what calculations have you done about how much will be lost from the State coffers as a result of losing these guaranteed payments over the next 20 years to 2035-36?

**Ms GLADYS BEREJIKLIAN:** As we stated, the benefit to the Government far outweighs those perceived risks which you have just highlighted. You need to step back for a second and look at the following conditions: firstly, the billions upfront which the State will receive, the reduction in debt, the reduction in risk and also the growth in the economy generated by jobs and the infrastructure investment. So all these benefits far outweigh and are offset by those risks that have been identified.

**The Hon. ADAM SEARLE:** When you are talking about the returns that these businesses currently provide to the Government, the analysis you are putting forward is that the benefits of the transaction outweigh the risks to the income, but that is not in the Deloitte Access Economics report. This report that this transaction appears to be based on does not make that assertion. Where is that analysis from? Is that an internal Treasury analysis?

**Ms GLADYS BEREJIKLIAN:** It is clear that the return of this transaction far outweighs those perceived risks and, in fact, it diminishes your argument, Mr Searle, because the Labor Party had incorrectly argued that the State would receive a certain return through dividends, which has now proved to be not the case. That is because the returns traditionally have been volatile, they have not been consistent, and it is fair to say—

**The Hon. ADAM SEARLE:** They have been in excess of about \$20 billion over the last 20 years. It is pretty solid, is it not?

**Ms GLADYS BEREJIKLIAN:** But what the State now receives upfront is that lease component upfront, which reduces the risk on the balance sheet moving forward. So, in fact, the transaction reduces risk, it improves the Government's balance sheet and allows us to invest in unprecedented amounts of infrastructure. That far and away offsets any of those issues you raise.

**The Hon. ADAM SEARLE:** Just on that, the moment the proceeds from these businesses go into consolidated revenue and are used in the annual recurrent budget, your Government is hypothecating all of the proceeds for infrastructure only. That must mean even if you are just getting an upfront payment of the future income stream, your annual budget is going to take a hit; you are going to lose money from what is now currently spent on that recurrent—

**Ms GLADYS BEREJIKLIAN:** But that again is offset by the enormous growth in the economy. I mean 120,000 jobs is not insignificant, plus the additional income streams. I think what you are failing to do is consider adequately the enormous benefits from the transaction, and no doubt it is not in your interest to do so, but the facts are there and the facts are obvious.

**The Hon. ADAM SEARLE:** Just going to your Government's submission, at page nine the submission claims that State taxation revenues are expected to benefit by the boost in the economy, but there is no dollar

figure put on that boost to State revenues in your submission. The Premier last Monday claimed there would be a boost of more than \$4 billion over the next 20-odd years. That assertion is not in the Government's submission. Is the Government's submission now walking away from the Premier's claim?

**Ms GLADYS BEREJIKLIAN:** Not at all. The Government's submission supports our claims because obviously—

**The Hon. ADAM SEARLE:** The Premier said there was going to be a \$4 billion boost to State revenue, and it is not in your submission. You are obviously walking away from the Premier's assertion.

**Ms GLADYS BEREJIKLIAN:** Not at all. You can extrapolate that from the overall benefits to the growth in the economy. Again, I know it is not in your interest to do so, but the benefits to the State are overwhelming and, in fact, we cannot underestimate the positive impact of reducing risk and that is because we do not know what these assets will look like in 30 years let alone 10 years' time. Is it not better for the State to have people who are actually experts in this area involved in a greater capacity than what they are, to reduce the risk to the State given what we know about diminishing returns and given what we know about the volatility of those returns?

**The Hon. ADAM SEARLE:** The Deloitte Access Economics report that the Premier seems to have based his presentation on and seems to be the foundation for this proposed transaction, nowhere in the report does it make the claim peddled by the Premier about the increase in the revenues of the State Government as a result of this transaction. So what I am putting to you is that the State Government, as an entity, will actually lose money on this transaction.

**Ms GLADYS BEREJIKLIAN:** No.

**The Hon. ADAM SEARLE:** You are going to lose the income from these businesses—

**Ms GLADYS BEREJIKLIAN:** No, that is wrong.

**The Hon. ADAM SEARLE:** —which currently pay for themselves and you are going to invest in a series of infrastructures that will cost money going forward. That is the case, is it not?

**Ms GLADYS BEREJIKLIAN:** What you have not assumed in your deductions is the positive impact of job creation, of increased economic activity, of increased revenue streams and the reduction in risk on the existing assets but also on the Government's balance sheet and the reduction in debt.

**The Hon. ADAM SEARLE:** Going to page nine of your submission, where you talk about the expected boost in State Government revenues, can I ask you to enumerate which existing revenue sources you expect a boost in, by how much, over which years and what is the modelling underpinning those expectations?

**Ms GLADYS BEREJIKLIAN:** I will make a general comment and then ask the Secretary of Treasury to further comment. When the economy grows it means economic activity grows. So you would expect an increased income stream or revenue stream from all those sources where the Government currently receives income. So all of those things that currently contribute towards consolidated revenue would have an increase in revenue stream simply because the economy is growing at a rate far in excess of what it is capable of were we not to make that \$20 billion investment in infrastructure. That is an obvious answer to your question and, again, those benefits far outweigh those risks you have identified and, in fact, what your party said during the campaign has proved to be unfounded in relation to dividend returns. What you and your leader has said has proven to be wrong and—

**The Hon. ADAM SEARLE:** What was pointed out in the election campaign was the historical—

**CHAIR:** Let the Treasurer answer the question.

**Ms GLADYS BEREJIKLIAN:** What you said has proven to be wrong. In fact, many from your side of politics called what you said in relation to dividends and prices misleading and a stretch of the truth, and I would go further than that. But I will ask the Secretary of Treasury to further comment on the general remarks that I have made.

**Mr GAETJENS:** Two things I think come into play here: one is that the Deloitte report suggests that there is an increase to economic growth above and beyond what would be expected normally, as a result of the lease and as a result of the reinvestment of the funds from that lease, over a period that is estimated to be about \$300 billion. In terms of the tax receipts, New South Wales has a pretty stable relationship with its tax revenue to GSP of about 12.8 per cent. If you apply that 12.8 per cent to the increase in GSP you will get the answer of increased tax revenue. We would also expect as a result of the benefits of the reinvestment of the infrastructure, we would think there would be population benefits to the State to come in over time; they would be attracted by the activity. You would also get productivity benefits.

If you get more population coming into New South Wales—in fact, as is happening now—that gives you a greater workforce to extract payroll tax revenue from and, as is pointed out in the submission, GSP has grown by 64 per cent and government tax revenue has grown by about 61 per cent. So there is a very close relationship between those two things. I would also go to an earlier comment where I think you said—and I will check the transcript—that businesses pay for themselves. If you take from about 2004-05, the Government has put about \$13.5 billion into those businesses. Basically, we pay through debt the requirements of the businesses that they need for capital expenditure. So since 2004-05 we have put in about \$13.4 billion. Over that time the businesses have paid in dividends \$10.9 billion. So I do not think it is really fair to say that the businesses pay for themselves.

**The Hon. ADAM SEARLE:** Just on the revenue streams, what modelling has Treasury done specifically about increases in the existing revenue streams as a result of this transaction? You are making all these blithe statements about expected uplifts but what detailed modelling have you done?

**Mr GAETJENS:** As I said before, we have shown that over the longer term the average of tax revenue to GSP is about 12.8 per cent, and we would expect that to continue, not just in the next five years but over the next 100 years.

**The Hon. ADAM SEARLE:** The Deloitte report, which goes across a whole lot of subject matters, completely fails to come to grips with any impact on the State budget. That is a pretty notable omission, is it not?

**Mr GAETJENS:** I do not think it was asked to.

**The Hon. ADAM SEARLE:** So, specifically not asked?

**Mr GAETJENS:** It is a report into the "Economic Impact of State Infrastructure Strategy—Rebuilding NSW". That, to me, is an economic report, not a fiscal report.

**The Hon. ADAM SEARLE:** So the impact on the State budget was irrelevant?

**Ms GLADYS BEREJIKLIAN:** There is a difference between the economy and the State budget. This was looking at the overall economy—just to make that distinction, Mr Searle.

**The Hon. ADAM SEARLE:** In relation to this close relationship between gross State product and the State revenue, that would assume that the State is not going to abandon sources of revenue over that period of time. Is that a fair assumption?

**Mr GAETJENS:** I think what it does is it probably assumes, like is inherent in the Fiscal Responsibility Act, that we maintain triple-A, we look at our good fiscal management that underpins the maintenance of triple-A, and it basically says that over time there will be changes to revenue mix—I think there always are.

**The Hon. ADAM SEARLE:** Both of you have mentioned government debt that these State-owned enterprises currently carry. Treasurer, you said that the borrowings of these entities were expected to go over \$20 billion. The evidence we have had today is that the three companies that are going to be the subject of the so-called lease carry debt of about \$15 billion. Which figure is it for the companies to be leased?

**Ms GLADYS BEREJIKLIAN:** Obviously, the position we were discussing was over a period of time. I will ask Tim to speak in detail about debt retirement because I think this is an issue that is very critical to provide at this point in time for the Committee because by retiring debt you are also retiring risk to the taxpayer,

which often is not assumed in the benefits of the overall transaction. I will ask Tim to give an explanation of what happens to each of the debt on each of these entities once the transactions proceed and are completed.

**Mr SPENCER:** In following the example of previous transactions, the debt of the businesses will be repaid out of proceeds. It has been indicated that the first transaction will be TransGrid. So when proceeds come in that debt will be repaid.

**The Hon. ADAM SEARLE:** Immediately or over time?

**Mr SPENCER:** The strategy for debt repayment will be worked out with TCorp, and when you come on to one of the other transactions, Ausgrid—which will be very large—the process for repaying that debt will need to be worked out and maybe to be transitioned in some way. That is a piece of work that will be done in conjunction with TCorp: what is the most efficient way to manage the repayment of that debt. But the principle is that over a period, if not immediately, for some transactions the debt will be repaid.

**The Hon. ADAM SEARLE:** So we do not really have a time frame for the debt to be repaid on these borrowings?

**Mr SPENCER:** As I said, you would envisage that for the first transaction, TransGrid, the debt will be repaid upon completion of the transaction of the lease.

**CHAIR:** And what is that amount?

**Mr SPENCER:** I would have to take that on notice. I do not know off the top of my head.

**CHAIR:** Just in billions?

**The Hon. ADAM SEARLE:** You are saying Ausgrid might be paid over time?

**Mr SPENCER:** Just given the size of the amount of debt—it is a very large piece of debt—we would have to take advice from TCorp, as we will, on the best method to do that.

**The Hon. ADAM SEARLE:** Just pausing there. If you are expecting to yield from the sale an amount to pay out all the debt and still have a net \$13 billion, or whatever, left over, surely you should be able to pay out the debt immediately upon the transaction being effected. What are the inhibitions to paying out that immediately?

**Mr SPENCER:** It is the ability to efficiently repay that debt, repay that debt in the market, because it is a significant amount and it needs to be done in the most efficient way. As I say, that is an issue which will be worked out by TCorp.

**The Hon. ADAM SEARLE:** Will the purchaser take on the debt or will it just be paid out over time?

**Ms GLADYS BEREJIKLIAN:** The lessee.

**The Hon. ADAM SEARLE:** Just on that: this is similar to the Port Kembla sale, is it not? It is a 99-year finance lease. Is that correct?

**Ms GLADYS BEREJIKLIAN:** It is a long-term lease, if that is your question.

**The Hon. ADAM SEARLE:** A 99-year finance lease similar to Port Kembla.

**Ms GLADYS BEREJIKLIAN:** It is a 99-year lease. I cannot comment on the similarity of that lease as I was not involved in that transaction. Tim is in a better position than I to comment on that.

**The Hon. ADAM SEARLE:** Perhaps Mr Gaetjens can answer this: In the 2013-14 New South Wales Report on State Finances at page 7-57 and 7-59, the Port Kembla lease, which is a 99-year finance lease, is "treated as a disposal". So those leases for 99 years were treated as if they were a disposal of an asset. This is equivalent to a sale, is it not? You are just fencing with words. It is really a sale.

**Ms GLADYS BEREJIKLIAN:** Retaining ownership in these assets is what the Government will do. Retaining 51 per cent of the network businesses is what the Government will do. You cannot compare—

**The Hon. ADAM SEARLE:** You are going to lease all of Transgrid.

**The Hon. TREVOR KHAN:** Point of order—

**CHAIR:** Mr Searle, please let the Treasurer finish her sentence.

**Ms GLADYS BEREJIKLIAN:** This has been the subject of debate during the election campaign. I suspect the Labor Party will not change its position on what it regards as this transaction, but we will continue to state what it is. It is a long-term lease. If you want to use semantics and revert to the politics of the campaign, which is what you did, that is your position

**The Hon. ADAM SEARLE:** As an accounting process this 99-year lease is equivalent to a sale, is it not?

**Ms GLADYS BEREJIKLIAN:** No, it is a long-term lease because the State retains ownership of the assets and we have rights as both lessor and lessee under the transaction. We are the owner and also lessee as well as landlord. That is very distinct. You cannot compare electricity network distributions in the same way that you would compare a port transaction.

**The Hon. ADAM SEARLE:** In the Government's submission you set out a number of protections for consumers. At point 7 you talk about some of the terms of the lease and summarise them. Can we expect that before the legislation is enacted the details of the lease will be made public so that we can make a proper evaluation of the risks and rewards for the State in this transaction?

**Ms GLADYS BEREJIKLIAN:** That is an interesting question because I gather from it that the Labor Party is now reconsidering its opposition to this transaction. Until this point in time the Opposition had said it would not support the transaction. Therefore I am assuming from your line of questioning that the Labor Party is considering its support for the legislation. If that is the case I would appreciate you making that clear because it is new policy and would be a headline reaching—

**The Hon. ADAM SEARLE:** The Committee has been called upon to evaluate the proposal and obviously a part of any decent evaluation is to look at all the different parts of the transaction. The issue is that there is no competition here in New South Wales. There is only one set of poles and wires. The public are on one side of the transaction through the Government and there is going to be a successful bidder. Once you have decided on the successful bidder why can we not know the details of the proposed lease so we can see the risks and rewards of this proposal?

**Ms GLADYS BEREJIKLIAN:** Certainly once the legislation is tabled and there is the normal, routine process of going through the legislation and having those discussions of course we will be able to discuss those issues in detail. We have outlined some of the licensing conditions that we have put on lessees already. The Premier made some new announcements already, which we were very pleased to announce because this gives the public an additional assurance that we are imposing those licensing conditions on the lessees. But I am interested in this notion of you wanting to evaluate, because that suggests to me the Labor Party has shifted its position. If that is the case—

**The Hon. ADAM SEARLE:** This Committee and its members are called upon to evaluate the proposal if we can.

**Ms GLADYS BEREJIKLIAN:** That is right. So you are suggesting that you are open minded to supporting the Government's transaction. Is that what you are saying?

**The Hon. ADAM SEARLE:** I am trying to see whether or not you are going to make the details available before the Parliament will vote on the legislation.

**Ms GLADYS BEREJIKLIAN:** But I think it is important in good faith to understand what the Labor Party's position is. This Committee has come together in good faith under the chairmanship of Reverend the Hon. Fred Nile and—

**The Hon. ADAM SEARLE:** Will you make the details of the contract available before the Parliament votes on the legislation?

**Ms GLADYS BEREJIKLIAN:** We have certainly said that the legislation will be aired in the public domain as is normally the case. There will be details in the legislation around the work the Government has done in that regard. I am heartened by the Labor Party's change of position to being a bit more open minded—

**The Hon. ADAM SEARLE:** Treasurer, you are fencing with words here. The fact is that apart from press releases and announcements in the media about step-in powers, the price guarantee or what have you no details have been provided either to this Committee or to anyone else as far as we know. When will the details of those proposals be made available?

**Ms GLADYS BEREJIKLIAN:** I find it interesting that every time we provide additional details you say you do not have any details

**The Hon. ADAM SEARLE:** Where is the proposed legislation for these things?

**Ms GLADYS BEREJIKLIAN:** I noticed Dr Kaye commenting on the process for this Committee. We have always said—and the Premier stated this last week—that we are keen to ensure the Committee has been through its process before we present the legislation.

**The Hon. ADAM SEARLE:** In fact, last week the Premier declared himself to be bored with the Committee.

**The Hon. TREVOR KHAN:** Let her answer the question.

**Ms GLADYS BEREJIKLIAN:** I think this is an important point about process. As a Government we could have after receiving the mandate at the election said, "Here is the legislation, go through that." But we have said no. We respected the upper House process and I am pleased to be here in that regard. But when you request further details which we believe are out in the public domain—of course the legislation will be made public and we will go through the normal process of discussion. Of course I can also say that our Treasury officials will be more than happy to provide any briefings to any member of the upper House who requires that. But I guess it is also an issue of whether the Labor Party has changed its position on opposing the transaction because if you are opposing the transaction why are you seeking this commitment?

**Dr JOHN KAYE:** While we are talking about the issue of legislation, has it been drafted yet?

**Ms GLADYS BEREJIKLIAN:** It is in the process of drafting, yes, and we are finalising the legislation.

**Dr JOHN KAYE:** When would we expect to see it?

**Ms GLADYS BEREJIKLIAN:** As I mentioned earlier, we would like to be able to present it as soon as the Committee's deliberations are complete and as soon as possible.

**Dr JOHN KAYE:** Are you saying that you have or have not drafted the legislation yet?

**Ms GLADYS BEREJIKLIAN:** We are saying it is in the final stages of drafting

**Dr JOHN KAYE:** Will you release an exposure draft before this Committee makes its determination?

**Ms GLADYS BEREJIKLIAN:** We are more than happy to make the legislation public once it is completed. Obviously, the Government had to consider some issues that are still outstanding in the regulatory environment. We want to make sure that the legislation we put forward is the most robust and thorough it can be.

**Dr JOHN KAYE:** When did you start drafting it?

**Ms GLADYS BEREJIKLIAN:** I cannot answer that question. I do not know the answer



**Dr JOHN KAYE:** Could you take that on notice?

**Ms GLADYS BEREJIKLIAN:** I am happy to take it on notice.

**Dr JOHN KAYE:** At point 3 on page 4 of your submission you refer to the electricity price guarantee. It is the first time I have seen details in writing. You say that the business will be required to guarantee that the network charges will be lower in 2019 than they were in 2014. If I am correct, 2014 was in the last regulatory reset and 2019 is at the end of the next regulatory reset. The AER's determination kind of locks that in, does it not?

**Ms GLADYS BEREJIKLIAN:** It does in relation to network prices but also we have provided an additional assurance by appointing Professor Fels

**Dr JOHN KAYE:** Leaving aside Professor Fels and that part of it, your item number 3, the price guarantee, is completely hollow, is it not? That outcome was given to us by the AER.

**Ms GLADYS BEREJIKLIAN:** Not at all. During the campaign when we said to the public very honestly and openly that the AER actually determines the network prices the Labor Party said to guarantee lower prices.

**Dr JOHN KAYE:** I am not really interested in the Labor Party. I am more interested in the transaction. Specifically, how would your point 3 be more binding on prices than the AER, which is already delivering your point 3?

**Ms GLADYS BEREJIKLIAN:** I appreciate the question. Actually, I am grateful for it because what it does is determines that, whether or not the poles and wires transaction proceeds, there is already a framework there for downward pressure on network prices and that does not matter who participates in the operation of the network business. That is an important point you make. What we have said is in addition to that point we obviously have included a price guarantee so the public is absolutely assured of our commitment in relation to that. In addition to that we have appointed perhaps Australia's best known consumer advocate in Professor Allan Fels to actually give the final tick off or cross before the transaction is complete in relation to pricing. I guess I am agreeing with you in that the Government has done all it can to put in place all those guarantees which give the public confidence and assurance that as a Government we are committing to downward pressure on network prices

**Dr JOHN KAYE:** Page 12 of your submission deals with dividends and fiscal implications. In summary the second dot point in the last row of the table says that Government will continue to receive dividends and tax equivalent payments from other businesses and leased businesses equal to its holding in those businesses. What business structure will you create so that the State's 49 per cent lease in Endeavour Energy and Ausgrid will continue to be not subject to Commonwealth tax payments? How are you going to do that?

**Ms GLADYS BEREJIKLIAN:** I might refer to my Treasury colleagues in relation to what commitments might exist.

**Dr JOHN KAYE:** Mr Gaetjens, do you understand my question?

**Mr GAETJENS:** I do.

**The Hon. CATHERINE CUSACK:** Can I note for the assistance of the Committee that the Premier has taken this on notice already.

**Ms GLADYS BEREJIKLIAN:** He did last Monday. He took the issue of tax equivalent payments on notice.

**Dr JOHN KAYE:** That was before we saw that you had it in writing in your submission. I would expect the Treasurer or her officials to be able to defend her submission and to know what it is about.

**Mr GAETJENS:** The transaction team have engaged with the tax office and tax advisers. Without going into the absolute details of the transaction, we are seeking to form a structure that still maintains within

the tax laws of Australia that the State's holding in the lease entity is still subject to State tax equivalent payments.

**Dr JOHN KAYE:** Will we know what that structure is before the legislation is presented to Parliament?

**Mr GAETJENS:** That I would probably have to take on notice.

**Dr JOHN KAYE:** Will it be in the legislation?

**Mr GAETJENS:** To a large extent yes. Can I just check that with Mr Spencer?

**Mr SPENCER:** Yes, part of it will be in the legislation and part of it will be in the broader set of transaction documents.

**Dr JOHN KAYE:** Will the public see that part of the transaction documents that relates to the business structure that would give us confidence that the tax equivalent payments will continue to come in on those businesses that are partially leased out? Will we see all of that documentation or do we have to take it on faith from the Government?

**Ms GLADYS BEREJIKLIAN:** Dr Kaye, can I also put it to you this way: Obviously I appreciate the substance of your question in relation to making sure we protect the Government's retained interest or retained asset and the legislation will not be silent on how the Government intends to protect the retained assets. There will be discussion in the legislation about how the Government intends to protect the retention of what the State's interest is.

**Dr JOHN KAYE:** Does that also leave us open therefore to the risks associated with 49 per cent ownership of those businesses?

**Ms GLADYS BEREJIKLIAN:** What risks are you talking about? Do you mean around debt or diminishing dividends or exposure or balance sheet?

**Dr JOHN KAYE:** Diminishing dividends, obviously, because presumably we will get 49 per cent of the dividends but I was talking more specifically about business risks and other risks associated with ownership such as technical costs associated with failure of infrastructure and so on.

**Ms GLADYS BEREJIKLIAN:** The legislation will definitely have guarantees around corporate governance and how the State intends to protect the retained interest we have both as lessee and lessor but I am not sure I understand the first part of your question

**Dr JOHN KAYE:** You will recall four years ago we were all a bit shocked when we found out about a thing called the availability of liquidated damages where in the Gentrader transaction the State still had risk associated with generator failure.

**The Hon. TREVOR KHAN:** That was ventilated in the inquiry.

**Dr JOHN KAYE:** Yes, but we were shocked when we discovered it in the inquiry. We did not know about it beforehand.

**Ms GLADYS BEREJIKLIAN:** But, Dr Kaye, can I say that given we have been discussing this for about a year there will not be any shocks when the legislation comes out

**Dr JOHN KAYE:** We were discussing Labor's privatisation for four years and we were very shocked.

**Ms GLADYS BEREJIKLIAN:** I am glad you have opened that line of questioning because the Labor Party did not take that to an election. They actually undertook that transaction in the most mischievous way possible and did the wrong thing by taxpayers and customers, so I would not use that as an example. But what I do want to stress is given the proceedings of this inquiry plus the debate that has ensued publicly and privately in the past 12 months there really is not anything that I can foresee that has not been given airing as an issue. The Government has been very open and transparent.

We could have looked at history to see how the Labor Party had done things but we chose not to. We chose to go the opposite direction because we think the people of this State were entitled to exercise their view and were entitled to ask the questions. In fact, I have to say that that robustness of the debate has improved our position because we have taken on board the issues raised by the community. That is why we have put in the stronger licensing conditions, the price guarantees and Professor Fels. I think democracy at its best works at its best. We have certainly taken on the issues which the community has raised with us, as well as members around this table, and we will continue to do that. I do look forward to the Committee finalising its deliberations of this inquiry. We look forward to presenting the legislation and again offering further briefings and discussions, as is the normal case for legislation that is so significant as this.

**The Hon. ROBERT BORSAK:** Further from what you were saying about taking on suggestions, the Premier last Monday said that the preference of the Government was to sell or lease these assets, whatever terminology you like, in trade transactions.

**Ms GLADYS BEREJIKLIAN:** Yes.

**The Hon. ROBERT BORSAK:** And that perhaps an initial public offering [IPO] might be considered.

**Ms GLADYS BEREJIKLIAN:** Yes.

**The Hon. ROBERT BORSAK:** Yet I read in the second paragraph of page three that an IPO would be considered and would be undertaken, if market conditions suggest that it would achieve the best outcome for taxpayers.

**Ms GLADYS BEREJIKLIAN:** No, that is correct.

**The Hon. ROBERT BORSAK:** Is that a slight change or nuance in relation to it?

**Ms GLADYS BEREJIKLIAN:** No. We have always known that in relation to TransGrid that would be a straight trade sale. The other two entities will really depend on market conditions at the time. Effectively the decision will come down to the return the Government thinks it will likely get by either process. We have left the issue of a potential IPO open, not with TransGrid but potentially with one of the other two transactions.

**The Hon. ROBERT BORSAK:** Why would you not with TransGrid, since it is a straight line sale 100 per cent, go straight into an IPO? Why would you dismiss that now?

**Ms GLADYS BEREJIKLIAN:** Because the advice that I have received—and I will ask our Treasury experts to further elaborate—is that in relation to TransGrid, a trade sale will far and away get the best return for taxpayers. I will ask either Mr Spencer or Mr Gaetjens to further elaborate on that point.

**The Hon. ROBERT BORSAK:** Mr Spencer, can you elaborate on that?

**Mr SPENCER:** Yes. The advice received is for these businesses, which need to go through a level of transformation in relation to the regulatory environment—the AER determination—are businesses which are best subject to lease via a trade sale than an IPO. It suits that class of investor better than it does investors in an IPO.

**Ms GLADYS BEREJIKLIAN:** But again the Government, if the market conditions are such, is still open—well, leaving the door open for an IPO for either of the other two assets; although, again it will depend very much on market conditions.

**The Hon. ROBERT BORSAK:** What will be the cash flow impact on future budgets of the loss of dividends and other income from these entities and assets? Is there not a revenue shortfall?

**Ms GLADYS BEREJIKLIAN:** Mr Borsak, we would argue there is not, on the basis that—obviously, in the short term the reducing dividends always have an impact on the budget and that is shown up. But we would argue very strongly that because of the growth in the economy, because of the upfront money that we are getting to invest in infrastructure and because of the job creation, that increased revenues streams and the benefits of the transaction would far outweigh the diminishing dividends. It is important to note again that those

fluctuations in dividends would potentially happen, regardless of the transaction proceeding. We have seen since the election evidence that is contrary to what our political opponents were saying during the campaign—that the dividends are very volatile, that they are diminishing at a rate far in excess of what our political opponents are claiming. By allowing private operators to participate in the network businesses through the long-term lease we are actually reducing the risk of those diminishing returns by reducing debt and also by allowing the economy to grow and increase those revenue streams that would offset those dividend reductions.

**The Hon. ROBERT BORSAK:** I know that is the same answer you gave before, Treasurer, and I accept that there will be a net possible benefit to the growth of the economy of New South Wales over the next 20 years.

**Ms GLADYS BEREJIKLIAN:** Yes.

**The Hon. ROBERT BORSAK:** My problem is substantiation. Where the numbers to show what this is going to be? There is a one-liner in the submission from the Government referring to the ratios you were talking about before in relation to the growth of the New South Wales economy and the growth of the State—

**Ms GLADYS BEREJIKLIAN:** GSP.

**The Hon. ROBERT BORSAK:** GSP, but in the end, what sort of dollars are we looking at? Where is the replacement revenue going to come from in that calculation? If the Government has not done the numbers, if Deloitte's has not done the numbers, are you not just doing that on faith?

**Ms GLADYS BEREJIKLIAN:** Not at all. Certainly, as the secretary highlighted, there is a high correlation between GSP growth and economic growth. Obviously, the Government's existing income streams would be what would be accumulating or increased—

**The Hon. ROBERT BORSAK:** So there are no numbers?

**Ms GLADYS BEREJIKLIAN:** I am sorry?

**The Hon. ROBERT BORSAK:** Treasury, with all its computers and all its boffins, cannot give us the numbers.

**Ms GLADYS BEREJIKLIAN:** That is not the case. We have already identified in the Premier's—

**The Hon. ROBERT BORSAK:** Or is it that they will not give us the numbers?

**Ms GLADYS BEREJIKLIAN:** —contribution, and that is that. We have already identified what we foresee that to be. At the end of the day I think what we need to consider are the benefits versus the risks associated with not doing this. Far and away the benefits outweigh any of the risks. That is why we are very strongly proceeding with the transaction.

**The Hon. ROBERT BORSAK:** I accept, Treasurer, the general platitudes about benefits, but what I am saying is: What are the hard dollars saying to us? What are the projections saying to us?

**Ms GLADYS BEREJIKLIAN:** Obviously the forward estimates—

**The Hon. ROBERT BORSAK:** Even for the next four years.

**Ms GLADYS BEREJIKLIAN:** Absolutely.

**The Hon. ROBERT BORSAK:** Even for the forward estimates for the next years.

**Ms GLADYS BEREJIKLIAN:** Absolutely.

**The Hon. ROBERT BORSAK:** What are the dollars?

**Ms GLADYS BEREJIKLIAN:** Mr Borsak—

**The Hon. ROBERT BORSAK:** Why do we not have a net deficit?

**Ms GLADYS BEREJIKLIAN:** As you can appreciate, Mr Borsak, we are still going through and crunching the numbers of the AER determination, which is still in the process. Obviously, the budget will reflect what impact that determination will have on the budget in the near future, but what we have a responsibility to do also is talk about the benefits in the medium to long term as well. I would just ask Mr Spencer to elaborate on the point about the impact of the dividends on the forward estimates and the fact that we are still going through that process with the AER.

**Mr SPENCER:** Yes. The businesses are reviewing the draft determinations in detail and the implications for their business of it. They will pass those numbers through as part of the budget process to Treasury, and that process is currently going on. Then we will have a look at those and work out what the impact is on the dividends from the businesses.

**The Hon. ROBERT BORSAK:** Mr Spencer, can you tell us when that project will be finished?

**Mr SPENCER:** It will be finished for the budget.

**The Hon. ROBERT BORSAK:** Before the budget?

**Mr SPENCER:** For the budget.

**Ms GLADYS BEREJIKLIAN:** Yes, so that is 23 June.

**The Hon. ROBERT BORSAK:** I must admit that during your explanation of the balance sheet debt of those entities, Mr Spencer, I did not quite understand who owns the debt. Were you saying that that entity-based debt that is there at the moment, the ownership of it will be retained by the Government?

**Mr SPENCER:** No. The debt of the businesses is owned by the businesses, but on—

**The Hon. ROBERT BORSAK:** Of which there is one shareholder or to shareholders.

**Mr SPENCER:** Correct.

**The Hon. ROBERT BORSAK:** Being the Government.

**Mr SPENCER:** Correct. On transaction, then the central borrowing agency, TCorp, will be responsible for the retirement of that debt.

**The Hon. ROBERT BORSAK:** That is right. So it is still Government debt.

**Mr SPENCER:** It will be Government debt that will be retired, correct.

**Ms GLADYS BEREJIKLIAN:** It is retired, as in it is reducing.

**The Hon. ROBERT BORSAK:** That is right, so where will the cash flow come from to retire that debt?

**Mr GAETJENS:** Proceeds of the transaction.

**Ms GLADYS BEREJIKLIAN:** Proceeds from the transaction.

**The Hon. ROBERT BORSAK:** So at some point in time you will have a net no debt, and no proceeds because they will be gone, and then you will have what?

**Ms GLADYS BEREJIKLIAN:** Mr Borsak, I think it is important to remember that that debt retirement is in addition to the \$20 billion we are spending on infrastructure. We made a commitment to spend \$20 billion on infrastructure, which we will be doing, and it is important also to note that in retiring that debt, you are actually strengthening the balance sheet as well.

**The Hon. ROBERT BORSAK:** I understand the nature of balance sheets. That is my job. But I am just trying to come to grips with, if you retire the debt and you create space on the balance sheet to borrow, that is still the same \$20 billion.

**Ms GLADYS BEREJIKLIAN:** No.

**The Hon. ROBERT BORSAK:** It is not? So we have a magic pudding, have we?

**Mr GAETJENS:** I think there is a bit of a difference. We get proceeds, which will be gross proceeds.

**The Hon. ROBERT BORSAK:** Okay. What are the gross proceeds?

**Mr GAETJENS:** The gross proceeds will cover the debt and equity elements of the business. When we talk about the \$13 billion, we are basically talking about the equity.

**The Hon. ROBERT BORSAK:** Can you tell us what that number is—what the gross proceeds will be? The gross proceeds will be \$13 billion plus \$20 billion, which should be \$33 billion. Is that what you are saying?

**Dr JOHN KAYE:** Should be \$13 billion plus \$15.2 billion.

**The Hon. TREVOR KHAN:** No, no.

**Mr GAETJENS:** I am not going to put numbers on it.

**The Hon. ROBERT BORSAK:** Is it \$13 billion plus \$15.2 billion?

**The Hon. TREVOR KHAN:** Yes, you are right.

**Mr GAETJENS:** No, no. The gross proceeds will be what the market provides. But, basically, when we talk about net proceeds, we are talking about the equity element of that.

**The Hon. ROBERT BORSAK:** Okay. I am still none the wiser, I have to admit. Anyway, my time is up.

**CHAIR:** Do you want to clarify that answer as to what the total amount would be?

**Dr JOHN KAYE:** I think they are saying they are going to get \$27 billion for the job.

**The Hon. ROBERT BORSAK:** I think so too. That is what I am trying to get to.

**Dr JOHN KAYE:** You are saying you can get gross proceeds—

**The Hon. ROBERT BORSAK:** That is what I think, too.

**Ms GLADYS BEREJIKLIAN:** Talk about the difference between gross and net proceeds.

**Dr JOHN KAYE:** That is what they are saying.

**Mr GAETJENS:** Again, as has happened with the previous transactions as well, when you get proceeds from purchasers, that is what we call gross proceeds. You then pay down the debt and it is the balance net proceeds that have then been deposited into Restart.

**Dr JOHN KAYE:** That is estimated to be roughly \$13 billion?

**Mr GAETJENS:** The numbers for this—again, we have \$13 billion in net proceeds, \$2 billion of the Commonwealth incentive payment which, in terms of Mr Borsak's answer, that helps in the forward estimates period because there are \$2 billion that comes in from the Commonwealth, and then there is the returns on the money invested, which is held but not yet invested in infrastructure, and that was \$5 billion.

**The Hon. ROBERT BORSAK:** And that is based on an assumption of expenditures of when that money will go out on the asset acquisition and purchase program?

**Mr GAETJENS:** It is based on the proceeds coming in, a profile of expenditure, and then returns on the amount that is left to be invested.

**CHAIR:** Do you know the figure for the debt, then?

**Mr GAETJENS:** No. I think I will have to take that on notice.

**CHAIR:** Just approximately—just in approximate figures?

**Mr GAETJENS:** I do not keep that in my head, Chair, I am sorry. I will go back and get that and take it on notice. It will be pretty easy to come back to it, but it is just not in my head at the moment.

**CHAIR:** Is it \$10 billion or something like that?

**Mr GAETJENS:** No. I would rather not speculate here. I think I will take it on notice.

**CHAIR:** But it is not \$1 billion. It is in that realm of—

**Ms GLADYS BEREJIKLIAN:** It is significant.

**CHAIR:** That is what I am saying. It would be a significant amount of money.

**Mr GAETJENS:** It is significant. In fact, one of the other benefits that comes from this—and I think if we look over the forward estimates if these transactions take place, the Government would avoid the need to borrow around about \$20 billion because that is the future capital expenditure forgone because the Government would not need to fund that—in fact it would be debt that is deconsolidated from the balance sheet.

**Dr JOHN KAYE:** This is what Joe Hockey calls double-dipping, unless his wife does it.

**CHAIR:** That figure would have to be made public because the companies who are going to seek to lease one of these utilities would have to include that in their offer. They cannot just offer \$13 billion.

**Mr GAETJENS:** No, no. The capital expenditure would be—there is a pretty bit hint that is in the two AER determinations about what they would allow for capital expenditure.

**The Hon. TREVOR KHAN:** I think that is at cross purposes there.

**Dr JOHN KAYE:** Yes, totally.

**The Hon. ROBERT BORSAK:** Yes. It sounds like it.

**CHAIR:** Is there a retention value that you must get, or a reserve price, or would that be kept confidential?

**Mr GAETJENS:** There will be, as we do for all transactions. There will be a retention value calculated at the very end of the process, but before final bids, and probably even indicative bids, are submitted to the Government.

**CHAIR:** And that would be kept confidential so it does not affect other bidders and so on?

**Mr GAETJENS:** Correct.

**CHAIR:** I note in your submission at page three you refer to necessary regulatory authorisations having been obtained, including any necessary Foreign Investment Review Board requirements. Is that just as a safety mechanism in case there is a bidder who is a foreign company—American or Canadian or whatever?

**Ms GLADYS BEREJIKLIAN:** Chair, for transactions of this nature and scale, and given that we are likely to receive very strong interest from Australian companies as well as overseas investors, the Foreign Investment Review Board would take a close and obvious interest. Therefore, in addition to the strict licensing conditions we will impose, which relate to operations having to be here in the State and the presence having to be here—they are the conditions that we impose as a State—the potential bidders would also have to pass a national interest test, which the Foreign Investment Review Board would oversee.

So you would have to pass the stringent tests is that we have put in place in terms of licensing conditions, which relate to how you operate, what your presence is, and what you do physically—but in addition to that we have an additional mechanism through the Foreign Investment Review Board, which would look at all bidders who had a majority overseas interest to ensure that they are within our national interests and also our State's interests. There are those very strict guarantees in place to make sure that all bidders, no matter where they come from, go through those stringent processes.

**CHAIR:** Another one of the conditions you have said you will implement is that the Electricity Price Commissioner, Professor Fels, would review the pre-transaction reports, et cetera, to make sure there is no upward pressure on prices in the short, medium and long term. I think that is admirable. How would he in fact do that?

**Ms GLADYS BEREJIKLIAN:** We have given him the right to tick off right at the end of the process if the Government, or on behalf of the Government our team, comes to a process whereby we determine the best bidders after they have gone through all of our processes. The last step would be for Mr Fels to give a tick to say that this process, this transaction, will put downward pressure on network prices. In addition to the AER's determination, in addition to the price guarantee we have announced, there is this additional mechanism where Australia's leading consumer advocate arguably will give a tick or a cross in relation to downward pressure on network prices, so we have done and said all we could through actions and policy statements to make sure the public is very clear that we believe very strongly that increasing the stake of private operators in the network business will enhance the ability to bring down network prices because not only are those experts better at being efficient but they are also better at being more innovative, more so than a government would be.

**CHAIR:** Will you assist Professor Fels to set up an electricity price commissioner office and would that be connected with Treasury or the Premier's Office? How will it operate in a practical way?

**Ms GLADYS BEREJIKLIAN:** Mr Spencer would like to answer that question.

**Mr SPENCER:** The Department of Premier and Cabinet will provide secretariat services to the price commissioner so he will have what resources he needs to undertake his review. He will also be able to talk to the transaction team and its advisers and review key documentation.

**CHAIR:** So he will have access to what is confidential information that would not be made public?

**Mr SPENCER:** Yes.

**CHAIR:** So he can make those decisions?

**Mr SPENCER:** Yes.

**CHAIR:** And that is guaranteed?

**Ms GLADYS BEREJIKLIAN:** That is our understanding.

**CHAIR:** There have been suggestions by some of the witnesses that the decrease in dividends from \$1.7 billion is something that Treasury is manipulating. Do you have any role in that dividend price?

**Mr GAETJENS:** No. In essence the businesses run their businesses, they come up with a profit and we have a pretty formulaic approach to dividends, if you like; either it is 70 or 80 per cent of net profit after tax. I think we have been doing some further finessing of that approach in terms of looking not just at the net profit after tax but looking at their business drivers as well. But there is no manipulation. I think there was some reference to a change in the asset valuation approach of either an income approach or—the name of the other approach escapes me at the moment. In 2012 Treasury did put out a policy statement that basically anticipated a



new accounting standard coming out which allowed two methods of asset valuations and all that the Treasury policy provided was that either of those two could be used.

**The Hon. TREVOR KHAN:** That is not what the evidence was suggesting. It was suggesting a bodge.

**The Hon. CATHERINE CUSACK:** If you ring, ask for money, they make some book entries and then the money just comes.

**CHAIR:** My time is up so we will move on to Government members if they seek further clarification.

**The Hon. TREVOR KHAN:** No.

**The Hon. Dr PETER PHELPS:** We do not have any questions.

**CHAIR:** You said it was not correct.

**The Hon. TREVOR KHAN:** No, no, the suggestion that it was one of two methods was not the assertion that was being made by witnesses. That was the only interjection I was making. It was being suggested that the figures were being bodgied up.

**The Hon. Dr PETER PHELPS:** Deliberately manipulated low in the out years.

**The Hon. CATHERINE CUSACK:** The more money you wanted, you just had to ask.

**CHAIR:** So the Government is not asking questions?

**The Hon. TREVOR KHAN:** No, we are not.

**The Hon. Dr PETER PHELPS:** No, we are making statements.

**The Hon. TREVOR KHAN:** We are making editorial comment.

**The Hon. ADAM SEARLE:** Going back to the issue of debt, if debt is going to be paid off over some period of time and if these entities are currently carrying debt, say, with an interest rate of maybe 8 per cent, and you cannot pay it out straightaway but you can only get 3 per cent by investing the sale proceeds, it is possible that for a period of time you will be losing on that debt by not being able to pay it out early. Is that a real risk with these transactions?

**Mr SPENCER:** Again, this is a matter for TCorp to provide advice on in relation to what is the best way to retire the debt.

**The Hon. ADAM SEARLE:** So we could lose money on this for a period of time?

**Ms GLADYS BEREJIKLIAN:** No.

**The Hon. CATHERINE CUSACK:** The money is upfront.

**Mr GAETJENS:** I think the basic thing is that if you transact a whole place of debt in a short amount of time you would disrupt the market for those securities. That is the issue.

**The Hon. ADAM SEARLE:** You are repaying it?

**Mr GAETJENS:** So what we need to do is keep in touch with TCorp about this to make sure that the market remains stable as the debt is repaid.

**The Hon. ADAM SEARLE:** But the rate at which you repay that debt will impact on how financially advantageous the transaction is in the hands of the vendor, that is, the State Government?

**Ms GLADYS BEREJIKLIAN:** Well no, that will depend on what happened at the point of transaction but it also depends on market conditions. It also depends on what advice we receive as to what the

retirement strategy should be and I would assume that the Labor Party would share our intent and enthusiasm for reducing debt where possible to ensure that we can use the proceeds to maximise the return to taxpayers. Certainly from our perspective reducing the debt reduces risks that the taxpayer currently has and I would assume that you would see that as a positive thing and, Mr Searle, I am assuming that you would also appreciate that we will receive expert advice through TCorp at the point of each transaction and once the final debt to equity figure is realised what the process or strategy is for retiring that debt, over what period of time, knowing full well that the Government will have a very enthusiastic and assertive infrastructure program. We need to take that into consideration of the profile that we have in relation to our infrastructure strategy as well.

**The Hon. ADAM SEARLE:** The short point is you cannot tell us any of those details at the present time?

**Ms GLADYS BEREJIKLIAN:** Yes, but nobody in New South Wales can because they will not be known until the transaction is complete, unless, Mr Spencer, there is anything else you want to add?

**Mr SPENCER:** No.

**Ms GLADYS BEREJIKLIAN:** There is nobody in New South Wales who will be able to tell you that because they are subject to market conditions; they are subject to the robust bidding process. One thing I do want to stress to all members of this Committee is that obviously as the transactions go through their stages, assuming we get the legislation through and the transactions proceed, we will ensure that at every stage of the process we keep the public aware of what is going on, what the market conditions are, and what stage we are embarking on because this is not something that is going to happen overnight; it is something that will happen over a period of time and we will make sure that we keep the public aware of every step of the process, similar to our openness and transparency in relation to telling people what we were actually doing if we were to be re-elected.

**The Hon. ADAM SEARLE:** We received evidence earlier today that if you spend all the proceeds, that is, if you spend everything including the retention value money, that will have a negative impact on the State's debt profile; that in fact engaging in a transaction like this, you should retain the retention value and only spend the difference between the retention value and any true windfall. Is that your understanding? Is that the advice you have received from Treasury?

**Ms GLADYS BEREJIKLIAN:** Certainly we are looking very closely at those profiling issues as far as the infrastructure spend goes and the whole reason why we are proceeding with this transaction is to be able to invest in billions of dollars of infrastructure whilst retaining the State's triple-A credit rating. That is the point we are doing this transaction; it is to be able to invest in infrastructure upfront, recycle the asset and then be able to use those proceeds and infrastructure whilst maintaining the State's triple-A credit rating. There is no other way you can invest in infrastructure of this scale over the period of time we hope to do so plus get a return for the State unless you proceed with this transaction.

**The Hon. ADAM SEARLE:** The evidence from Michael Egan, the former Treasurer, is that if you spend the retention value you will blow out the State's debt profile again. You should retain the retention value and only spend above the retention value?

**Ms GLADYS BEREJIKLIAN:** That is why obviously we will ensure that profiling for the infrastructure is in a way which protects the integrity of our balance sheet but that is the whole reason why we are proceeding with the transaction. This is the whole process we are proceeding with the transaction, that is, to make sure that we are able to invest in the infrastructure upfront as well as retire debt as well as provide the community with assets that they do not have now, that they will have into the future. I hope you would also agree with other things Mr Egan said this morning as well.

**Dr JOHN KAYE:** On page 11 of your submission in the second row you talk about the Fair Work Act and say the "Enabling Legislation will in effect ensure continuity of employees' accrued entitlements including superannuation". What about those employees who lose their jobs as a result of the transaction?

**Ms GLADYS BEREJIKLIAN:** Obviously, as you suggest, there are two processes. There is the AER determination and then there are the employees who will transfer to the new lessees. That is obviously the subject of further discussion and consultation. The arrangements by which that will occur, that is, the 8,100-odd remaining employees, is the subject of further consultation and discussion.

**Dr JOHN KAYE:** With whom?

**Ms GLADYS BEREJIKLIAN:** With the relevant stakeholders.

**Dr JOHN KAYE:** Who are the relevant stakeholders?

**Ms GLADYS BEREJIKLIAN:** There are a number of them, as you would appreciate. Obviously those discussions will commence once the legislation is presented.

**The Hon. ROBERT BORSAK:** At the risk of being repetitive, can you explain how the transaction will be good value for money?

**Ms GLADYS BEREJIKLIAN:** It is good value for money because the State receives upfront billions of dollars through the long-term lease, which allows us to invest in infrastructure, to bring forward things we could not have done without the transaction, which will generate in excess of 120,000 jobs in the next two decades, which will assist the economy to grow, which will ensure that we reduce the risk associated with debt and also associated with governments running business when there are better experts out there who can assist us in operating these entities.

It is value for money because it provides all those benefits which allow us to invest in unprecedented infrastructure, which allows us to maintain integrity of the Government's balance sheet as well as reduce debt and build infrastructure which is in excess of what is currently owned by the State. In essence we are using existing infrastructure, recycling that asset and building new infrastructure, new assets, and growing the economy at the same time. So on all of those levels we would argue very strongly that the taxpayer is getting great value for money but we would also argue that every single citizen in this State is getting great value in return for the transaction because they will have infrastructure which would not have proceeded should the transaction not be successful.

**The Hon. ROBERT BORSAK:** Treasurer, the Australian Energy Regulator will continue to determine network charges into the future. How will this impact potential pricing for the leased assets?

**Ms GLADYS BEREJIKLIAN:** Obviously we have put in certain price guarantees in the short term. We have ensured that Allan Fels is there to oversee price guarantees in the short, medium and long term and we also believe very strongly that the efficiency and innovation which additional private sector involvement brings through this transaction also puts downward pressure on network prices. They are the main reasons behind that sentiment. I am not sure if any of the Treasury officials would like to add anything.

**The Hon. ROBERT BORSAK:** With respect, I do not think that actually addresses the question.

**Ms GLADYS BEREJIKLIAN:** I am sorry, I misunderstood the question. What was the question?

**The Hon. ROBERT BORSAK:** The question was: what impact will the Australian Energy Regulator's price control, if you like, have—

**Ms GLADYS BEREJIKLIAN:** Do you mean on the value of the asset?

**The Hon. ROBERT BORSAK:** —on the calculation of the value of the assets you are going to lease?

**The Hon. Dr PETER PHELPS:** Surely that is a matter for any potential lessors.

**The Hon. ROBERT BORSAK:** No, it is not. The Government would have calculated it already.

**Ms GLADYS BEREJIKLIAN:** No.

**Mr GAETJENS:** No, Mr Borsak. Again this is a 99-year lease and let us round it up to 100 so that will give 20 or 19 future regulatory resets. That allows a private sector lessee to actually run the businesses and try and beat the regulator for every reset that happens because the incentive structure of that regulatory system says that the owners of the networks can get out of efficiencies, through its running, for the five-year regulatory period—

**The Hon. ROBERT BORSAK:** It goes into their pocket.

**Mr GAETJENS:** —they can keep it but then it goes to consumers. So there is always an incentive for the operators to be as efficient as possible because they get to keep it for a while and then it is returned to consumers and in five years time you go through it again.

**The Hon. ROBERT BORSAK:** And you have not attempted to model that at least for the forward estimates?

**Mr GAETJENS:** What we say, on behalf of the State, is that as long as the proceeds are better than the retention value to the State, the State is better off and this is happening through the regulatory period where consumer prices are coming down so in that respect I think it is good value for consumers as well.

**CHAIR:** On the management of the companies, we basically split the company in half so there will then be two boards, a government-appointed board for administration and the new owner will have their own board?

**Mr GAETJENS:** Yes.

**CHAIR:** How does the actual management fit in? Is the Treasurer still a shareholder in the government-owned ones?

**Ms GLADYS BEREJIKLIAN:** I will let Tim finish, but a lot of those issues you raised will be in the legislation because they will demonstrate to the public how we will protect the State's retained assets or interests. I will ask Tim to elaborate on that.

**Mr SPENCER:** Yes, that is correct. For TransGrid, which is going to be a 100 per cent lease, there will not be a government board going beyond the transaction. That will be replaced by a private sector board.

**CHAIR:** I understand.

**Mr SPENCER:** For the leased entities, there will be an arrangement in place whereby the State's interest in the two leased entities will be overseen by appropriate boards.

**CHAIR:** Will the idea of the Treasurer being a shareholder be part of that?

**Ms GLADYS BEREJIKLIAN:** Certainly we will have rights as lessor and those rights will be outlined in the legislation.

**The Hon. ROBERT BORSAK:** When does the Government plan to sell the rest?

**Ms GLADYS BEREJIKLIAN:** You know that is not going to happen.

**The Hon. Dr PETER PHELPS:** We are not selling anything, we are leasing it.

**Ms GLADYS BEREJIKLIAN:** We are not selling anything. Anyway, I think my time has expired.

**CHAIR:** Thank you for assisting our inquiry. I appreciate you and the Treasury officials giving us the time.

**Ms GLADYS BEREJIKLIAN:** Thank you. I wish you well in your deliberations.

**(The witnesses withdrew)**

**NICK MOTTERAM**, Managing Director, On-Market BookBuilds, and

**BEN BUCKNELL**, Chief Executive Officer, On-Market BookBuilds, sworn and examined:

**CHAIR:** Welcome, gentlemen. Do either of you wish to make an opening statement?

**Mr BUCKNELL:** Yes, we both would.

**CHAIR:** You have given us a copy of it?

**Mr BUCKNELL:** No, that is a summary extract document. We had quite a large submission.

**CHAIR:** You have attached that to your submission?

**Mr BUCKNELL:** We have attached that as part of the submission, yes. Thank you for the opportunity to attend the inquiry. We are not here to argue the case for or against privatisation of New South Wales electricity assets. We are here to provide you with information so that you can recommend the optimal process in the event that Parliament does approve the sale of these businesses. You might well be wondering why the method employed for privatisation should be so important. We believe it is as important as the decision to privatise at all or not. This Committee can have an important role in ensuring that the process gets the right price for the people of the State and also ensure fairness for the taxpayers of New South Wales. Some have expressed the view that the sale or lease is a foregone conclusion. If this is the case, then I think it is all the more important for members of this Committee to focus on the process because those decisions as to how it will be done have not yet been made and this is where this Committee can have the greatest influence.

By way of background, I founded On-Market BookBuilds. It is a New South Wales company. We license our patented intellectual property to the Australian Securities Exchange [ASX]. They launched the ASX BookBuild facility in October 2013. We are wholly independent of the ASX and the views that we express today are entirely our own. We built the ASX BookBuild facility so that all investors could have a fair go when it comes to initial public offerings [IPOs] and capital raisings. The ASX BookBuild facility sits inside ASX's infrastructure, which conducts around one trillion dollars-worth of trades per annum. They operate it, not us.

Our organisation is built on the values of fairness, transparency and efficiency for the capital raising process and, in particular, IPOs. These are not mere words. The ASX BookBuild facility is the only regulated financial market for pricing and allocating IPOs in Australia. As a regulated financial market, it operates under the ASX as licensed, which requires it to be fair, transparent and efficient. Its rules have received regulatory approval from ASIC and Treasury at the Federal level. The traditional methods employed for IPOs are not subject to the same regulatory requirements to meet these standards.

You will see from our submission that we have also attached Lord Myners' report. The United Kingdom commissioned this report last year as a result of the public outcry following the privatisation of Royal Mail. The Royal Mail process was the traditional process. The front-page reports complained that pricing was neither correct nor allocations fair. In the case of Royal Mail the issue priced up 34 per cent on the first day. This meant that the difference between the issue price and the price received by the Government—the price at the end of the first day, I should say—was about £1 billion, which is approximately \$1.9 billion.

In December last year, Lord Myners, who is highly regarded by both sides of politics in the United Kingdom, made eight recommendations to the United Kingdom Parliament. One of those eight recommendations was to strongly encourage government and private businesses to adopt our approach to IPOs and, in particular, government privatisations. The report states that this will improve fairness of allocations, result in better price discovery, and deal with the perception that investment banks have a conflict of interest. I realise that the report is long and comprehensive, so I have tabled key extracts from the report concerning the ASX BookBuild facility.

Three weeks ago Lord Myners and the London Business School invited me to be the keynote speaker at an event in London, which was followed by a panel session led by Lord Myners. I do not say this to boast but more as further evidence of the significance attached to our solution in one of the world's largest financial markets. In March of this year, the Premier of New South Wales announced that Sydney would become a

fintech hub to promote digital disruptors in the State's \$60 billion financial services industry so that they can compete, thrive and lead on a world stage.

If the State wishes to ensure, first, that its residents have the opportunity to continue to own these assets; secondly, that it receives the right price; thirdly, that there is a fair allocation process; fourthly, that it de-risks that process by using ASX infrastructure and also a facility which is regulated by ASIC and Treasury; and, finally, to show and truly demonstrate that New South Wales is serious about being a fintech hub in the world, then it will not do this by way of trade sale nor by the traditional IPO process. However, these goals are also the values that underpin the ASX BookBuild facility and the regulations that govern it. Mr Chairman, Committee members, I urge this Committee to recommend it to the Parliament in its report to ensure the right outcome does not end with the decision whether to privatise the New South Wales assets or not. This is just the beginning.

**Mr MOTTERAM:** Mr Chair and members of the Committee, I start by thanking you for the opportunity to attend this inquiry. I am a managing director at On-Market BookBuilds. Prior to joining On-Market BookBuilds, I was with UBS investment banking in Hong Kong as head of the utilities and infrastructure business across the Asian region. Before that, I was with UBS and JP Morgan investment banking in Sydney. In these roles I worked with many of the owners of Australia's large privatised regulated utility assets, learning firsthand how prized the businesses are to large scale international investors.

For the same reasons there is strong interest from offshore players for these assets, there is equally strong interest from domestic investors. As you may be aware, there are a number of ASX-listed companies that are focused on the ownership and management of regulated utility assets. These companies give it a market capitalisation of more than \$20 billion. Each of one of these companies has materially outperformed the ASX 200 over the past five years. This is a clear indication that domestic investors like quality assets that provide a solid yield and long-term security to house their investments and their retirement nest eggs. If the trade sale is the chosen path for privatisations, then the State will be ignoring and excluding 5.98 million Australian residents or 34 per cent of the population who have direct exposure to shares, excluding 534,000 self-managed super funds with more than one million members, more than 300,000 of which reside in New South Wales, and excluding one-third of the total Australian superannuation pool, which controls \$566 billion in assets. On top of this, the State will also remove any influence that these investors could have on a pricing outcome.

Why not allow the sought-after high quality assets to be held in domestic portfolios? In the event that the Parliament does consider that the people of New South Wales should have the opportunity to own these assets via an IPO, I draw the Committee's attention to the fact that simply doing an IPO does not mean that people have a fair opportunity to participate. In the case of the Medibank IPO, which I am sure you are all aware of, although open to all investors, an ordinary Australian investor would have received less than \$8,000 of the first \$14,000 bid for. Any bids above \$14,000 would be scaled back to 5 per cent of that bid. While they were scaled back around 95 per cent, the scale-back that applied to large institutional investors was not disclosed. Current IPO practices facilitate large institutions, domestic and international, to fill their boots with Australia's crown jewels while retail investors get scaled back to a fraction of what they asked for.

In contrast, the ASX BookBuild facility provides a platform on the ASX that allows the State to make pricing decisions in light of whole-of-market demand, it retains control over the allocation outcomes, and, most importantly, provides a fair, transparent and efficient process that allows all investors to bid and to be allocated shares in the IPO. In light of this, I urge the Committee to recommend that the ASX BookBuild facility be used to IPO the State's electricity assets, first, to facilitate a process that maximises the price for the State, and, secondly, to ensure fair participation for all New South Wales residents.

**The Hon. ADAM SEARLE:** What is the risk to the public purse of a trade sale as you see it?

**Mr BUCKNELL:** Very simply put, by going down the path of a trade sale, \$600 billion worth of assets currently held in self-managed superannuation funds will be not be able to participate as part of the bidding process, nor will 5.98 million Australians. We are comparing the difference between going down a trade sale route versus an IPO and then, if we go down the IPO route, how to maximise the proceeds.

**The Hon. ADAM SEARLE:** But the vendor presumably would adopt whatever process achieves the top dollar, would they not?

**Mr BUCKNELL:** One would hope so.

**The Hon. ADAM SEARLE:** You seem to have some reservations about that possibility.

**Mr BUCKNELL:** The Government has already said that it will embark on a trade sale process for the transmission assets. Governments have not yet adopted this facility to address the problems that have plagued the traditional IPO process. This is something new.

**The Hon. ADAM SEARLE:** Again I ask: What are the particular risks that concern you? Apart from people not being able to participate as a matter of fairness or equity, what are the risks of a trade sale to the Government as the vendor? Is there some risk that the advisory firms will sell only to their own clients at some knockdown rate? Are you worried about value for money?

**Mr BUCKNELL:** There has been a lot of literature written about conflicts of interest. What I am talking about does not really go to the heart of conflicts of interest but more to the fact that if you want to ensure optimal dollar obviously you will invite as many people into the bidding room as possible. You do not exclude one-third of the superannuation pool lightly. In our view, there is a way to get the optimal price and that is to ensure that every potential bidder is in the room.

**Dr JOHN KAYE:** I mean absolutely no disrespect, but the Committee needs to know something. If the Committee recommended the use of BookBuilds and the Government did so, would you make money? You have an interest in this.

**Mr BUCKNELL:** Unlike some other people who have appeared before the Committee, we have no hesitation whatsoever in saying how the fee structure works. The fee structure is published by the ASX. If it were to proceed, let us say it was a \$5 billion transaction—

**Dr JOHN KAYE:** Let us say it is a \$28 billion transaction.

**Mr BUCKNELL:** I will use \$5 billion to demonstrate because the calculation will work through and it is possible to see from there. If the Government asks for \$1 per share and gets it, the fee that the ASX charges will be \$25,000 and we will receive a share of that \$25,000. If the Government receives a larger amount than the benchmark figure it sets—it sets the beginning of the benchmark—then the ASX fee at \$5 billion is about 17 basis points. We would receive a share of that.

**Dr JOHN KAYE:** Mr Searle asked about the potential losses associated with a trade sale. If the Government went ahead with an ordinary IPO or an IPO that does not use BookBuilds, can you outline the risks?

**Mr BUCKNELL:** There are two ways to look at it, first, from the Government's perspective and, secondly, from the perspective of the residents of New South Wales and their ability to participate in the transaction. I will start with the first element—the risk to the Government. Typically, retail bidders—that is everybody in this room and "people" as we like to call them—

**The Hon. TREVOR KHAN:** It is not everybody in this room. I am out of the game.

**Dr JOHN KAYE:** In fact, none of us would be bidders.

**CHAIR:** He means potentially.

**Mr BUCKNELL:** Yes, potentially if the Government were to go down the IPO route. Those retail bids are all taken at final. That means that you do not get to bid at each price point. The Government does not see the cumulative demand at each price point, and the retail bids do not effectively influence the pricing decision once you reach the top of the range. However, under the ASX BookBuild facility, everybody is able to bid at final. Therefore, the Government can see where there are various levels of demand. One of the things that came out of the Myners review was that there was about \$1.3 billion of demand and retail money that was unable to influence the pricing decision. I can refer members to the relevant point in the report. However, it says that if they had used a different process then this could have influenced the ultimate pricing decision. Then, rather than seeing these massive price jumps in the first day where the proceeds go to the buyers of those assets—mostly the institutional buyers—they would be in part recouped by the Government.

**Dr JOHN KAYE:** Is it fair to summarise your statement by saying that it allows for better market information discovery and that it therefore captures more of that value for the vendor? There would be a lower probability that we would see a price rise on the first day of trading of the shares.

**Mr BUCKNELL:** It means that you see that information and you can still control the price. Effectively, the price shown on the market under the code you issue will be a product of the amount of demand coming in from the market and how many times you want the deal to be covered at a given point. You might say, for example, that we want to under-price the issue slightly to give those who come in to provide liquidity for that IPO a certain type of return on day one. That means that you have more information so you get fewer unexpected returns.

**Dr JOHN KAYE:** You might allow some return to occur for reasons of liquidity, but that is controllable in a stochastic sense.

**Mr BUCKNELL:** Exactly. You can effectively look into the demand that you would traditionally see in the secondary market and make a pricing decision in light of that. You do not lose the elements of control that you have in the traditional process. It is important still to be able to bring the institutional book together. Those bids can be tagged to get a certain level of priority, provided they are at a price that takes into account where all the retail bids are as well.

**The Hon. ROBERT BORSAK:** In your view, why does the Government want a trade sale for TransGrid and why will it not consider an IPO?

**Mr BUCKNELL:** That is a very difficult question. We have not been provided with the experts' reports.

**The Hon. ROBERT BORSAK:** I want your opinion. They have not been provided to the Committee either.

**The Hon. TREVOR KHAN:** Surely that is a question more appropriately asked of the Treasurer.

**The Hon. ROBERT BORSAK:** I asked her that question.

**Mr MOTTERAM:** My track record of working on many of these transactions indicates that the view might be that the sale of 100 per cent of an asset might result in a better price than a 51 per cent stake.

**The Hon. ROBERT BORSAK:** Or a quicker sale.

**Mr MOTTERAM:** A trade sale process still takes a number of months to complete. It is hard to tell in terms of the preparation that will be required. However, in reality the time frame will probably be equivalent in both outcomes.

**The Hon. ROBERT BORSAK:** Is it a problem for BookBuilds that it does not have an advisory hat and by implication a direct line into New South Wales Treasury?

**Mr BUCKNELL:** We have preferred to keep ourselves entirely independent from the transactions at this stage. We would certainly welcome the opportunity to speak to New South Wales Treasury to advise on how best to achieve the process. However, as a business model we do not conduct advisory work at this point in time.

**The Hon. ROBERT BORSAK:** Do you think that is disadvantaging you? The Committee has heard a lot of evidence about UBS and what it was doing with its advice. I see Mr Bucknell smirking.

**Mr BUCKNELL:** How best to do its business is a perennial question for any small business. We find that we are providing a lot of assistance to firms in the capital-raising process. However, we have not monetised that as an advisory line.

**The Hon. ROBERT BORSAK:** Obviously the Government seems firm that it will not do an IPO for TransGrid; it will sell it in a line. If you were asked to participate as part of an IPO with the New South Wales



Government offering on the partial sale of a couple of the other assets or businesses, what level of financing would you be able to provide? I am not necessarily talking about dollars. Would you be able to provide 100 per cent in the BookBuilds model if, for example, it was \$4 billion or \$5 billion, or would you look to split it with institutions?

**Mr BUCKNELL:** The transaction can be conducted either way. In the BookBuilds model the institutional bids go into the same pool of liquidity as the retail bids.

**The Hon. ROBERT BORSAK:** They are competing on an equal footing with small managed superannuation funds or the mums and dads.

**Mr BUCKNELL:** Exactly. We have not tried to get rid of the way that the process works currently. This is an addition to the existing process. The lead investment bank still goes out and gets all its institutional bids. All of that side of the process works the same as it does today. The main difference is that there is a live price in the market and everybody can bid in, not only those people who are bidding either at final as the case may be under the prospectus.

**The Hon. ROBERT BORSAK:** So you would still have the lead institution putting an indicator or a float rate into the market?

**Mr BUCKNELL:** Yes, a minimum. Once the minimum has been effectively reached, the State could allow the price to go up to reflect that increased level of demand or it could hold the price.

**The Hon. ROBERT BORSAK:** In other words, it would not be a fixed price that the State expected. Once it hit the minimum, it could expect an overvalue.

**Mr BUCKNELL:** That is the main—

**The Hon. ROBERT BORSAK:** In other words, it would have upside risk that it could take advantage of.

**Mr BUCKNELL:** That is the main value of the facility—it will ensure correct pricing for the State.

**CHAIR:** To follow up your original proposal, you are saying we could consider making a recommendation in favour of an IPO versus a trade sale. Would that automatically mean we recommend the ASX BookBuild facility or would it mean that various companies could tender to conduct the IPO? Are we locked into your company to book build?

**The Hon. TREVOR KHAN:** Locked into the ASX if you make this recommendation.

**Mr BUCKNELL:** There are two decisions to be made. The first decision is whether it is made by way of a trade sale or an IPO. The second decision is, if it is made by way of IPO, whether or not to use the ASX BookBuild facility as the mechanism. We as a company do not need to be involved at all. We have licensed our intellectual property to the ASX. We do not need to be involved in any way in the transaction. Of course, we have had some experience in using the facility and that might be helpful to the State, but we do not need to be actually involved in the transaction. The State would be able to use the ASX BookBuild facility, as is every other listed company.

**CHAIR:** You have given your intellectual rights to the ASX.

**The Hon. TREVOR KHAN:** For a fee.

**CHAIR:** Does another company the same facility as BookBuilds?

**Mr BUCKNELL:** No, this is a world first by a New South Wales company. It is the first exchange in the world to host such a facility. This is the subject of the Lord Myners Inquiry. It is quite an extraordinary thing that the second largest financial market is saying look to Australia. The quotes are in the paper that I have tabled, in the first paragraph of the summary of recommendations.

**Mr MOTTERAM:** The BookBuilds facility does not replace the existing lead managers. You would still have lead managers, the mandated advisers to government, driving the process. The BookBuilds facility would be an addendum to the existing process, capturing whole-of-market demand.

**The Hon. TREVOR KHAN:** It provides the framework in which the IPO operates.

**Mr MOTTERAM:** That is correct.

**CHAIR:** The idea is for mums and dads to get involved, so there would be advertisements.

**Mr BUCKNELL:** If you go down the IPO path, that would be the case whether or not you use the ASX BookBuild facility. Mums and dads will have a right to acquire shares. The issue is whether that application is fair. In the case of Medibank, for those people who bid more than \$14,000 worth, the bids were scaled back 95 per cent, so they only received 5 per cent of their bids. Effectively they were not treated in the same way—

**The Hon. TREVOR KHAN:** As the big institutional investors.

**The Hon. ROBERT BORSAK:** In this situation, is it true that they can follow up the market if they want—go in for what they want and get out when they want?

**Mr BUCKNELL:** That is correct.

**The Hon. ROBERT BORSAK:** The Government gets the benefit of the BookBuilds increase in revenue for each share sold?

**Mr BUCKNELL:** That is correct.

**The Hon. CATHERINE CUSACK:** I start by congratulating you on a successful and innovative business, a world first in New South Wales. Because it is new technology and because this is such a big transaction, has there been any interaction with or feedback from Treasury? It is very difficult for approaches to be made by a parliamentary committee and for us to get responses from Treasury if you have not been in communication with Treasury.

**Mr BUCKNELL:** I will answer that in two parts. First, yes, this is new but it operates within ASX trade, which conducts \$1 trillion worth of trades per year. It has received regulatory clearance by ASIC and at the Federal Treasury level.

**Mr MOTTERAM:** We have also met with Tim Spencer in Treasury over the last few months, prior to the election. We have reached out to him since the election as well to discuss BookBuilds as an option, should an IPO be the chosen process.

**The Hon. CATHERINE CUSACK:** How much capital has been raised so far through BookBuilds, and through how many transactions?

**Mr BUCKNELL:** The facility was launched in October 2013. It has been used on transactions for \$110 million so far.

**The Hon. TREVOR KHAN:** That is small change compared to what we are talking about.

**Mr BUCKNELL:** That really makes it all the more extraordinary that the UK Government is taking recommendations on sales the size of Royal Mail that say this is the approach that should be adopted. You would be supporting a New South Wales financial innovation, there is no question.

**The Hon. CATHERINE CUSACK:** This line of questioning is not critical but is simply to try to understand the level of experience in this new technology. Of the transactions, what was the biggest one? How did that work? Taking us through that would help us to understand the opportunity.

**Mr BUCKNELL:** There have been 10 transactions run through the facility. The largest of those that raised money through the on-market method was WAM Capital, which attracted about \$25 million worth of

demand and raised \$15 million. Another one was Cadence Capital. This is quite important because you do not lose the funds coming through the traditional channels. Everything that you would normally do, you would still do. So you still have all the broker networks and the lead managers getting the institutional book together. The main thing that changes is that you have effectively syndicated the entire market because you have allowed everybody to bid in the same way so they can bid in the secondary market. Those bids are lodged on the ASX via their brokers and, in the case of the published prospectus, those bids could be made directly to the State which could instruct the lead manager to put in those bids. You do not lose any of the framework of the existing process. What you have is in addition on top of that, and that addition is the benefit of the ASX infrastructure and the ability to have a live price on which the people can bid and so the State can see the price as it increases.

**The Hon. CATHERINE CUSACK:** Is there a third scenario which is a blend of a trade sale and an IPO? This would mean working with one of the banks to finance the fundraising.

**Mr MOTTERAM:** A number of scenarios could exist. As I mentioned, a number of listed utility companies in Australia have cornerstone investors, largely international utilities such as Singapore Power. They take a cornerstone stake in a business and the balance is held by retail and institutional investors. There is also the ability for us to structure the transaction to work alongside the investment bank process of capturing demand and capturing demand through the BookBuilds facility. It is flexible. Although the BookBuilds facility has been used in about \$110 million worth of capital raised, it is on the ASX and is scalable. Every broker would access the facility by buying and selling shares in the secondary market. The scalability of the platform is not a problem; it is run within ASX trade.

**The Hon. CATHERINE CUSACK:** Could it be a component of financing for a trade sale?

**Mr BUCKNELL:** It is an interesting question. A trade sale typically is where you sell to a very limited number of buyers. In case of ports, the lease was to three buyers, I think—Abu Dhabi Investment Fund, Australian Super and IFM. Typically, in the IPO process you will take a number of cornerstone investors that are very large investors. There would be a listing of that business at the end of that process. There would be liquidity in those shares afterwards for people who had bought in, small mums-and-dads investors or institutional investors. That liquidity is provided by a listing. The main difference between being listed and not being listed is essentially the publication of the daily price.

**The Hon. CATHERINE CUSACK:** There is the potential for you to reach out to the people doing the transaction?

**Mr BUCKNELL:** The decision would need to be made the transactional level as to whether the business is going down a trade sale route or an IPO. It would be very difficult if there were not some certainty around that for the buyers.

**The Hon. CATHERINE CUSACK:** No-one will forget what happened with Telstra's T2 sale. This showed that shares do not always go north and that sometimes they go south. This left the Government with a huge political problem and showed the difficulty of pricing as these very complicated transactions for very large organisations. There was an assumption that because it was a government asset it would appreciate. Let us be honest, the Government put in a component for ordinary Australians to have a windfall, because the sale was so unpopular. This is possibly not the scenario we want for this sale.

**Mr BUCKNELL:** It is important that the State has the fullest amount of information when it makes the pricing decision. That way to get that information is to allow all possible bidders to bid and to ensure that those bidders know in the allocation process that it is worth their time to bid. Traditionally, it has not been worth their time putting in a bid. In terms of this being a very complex transaction, we have a very experienced team. One of our managing directors was the head of Macquarie Bank's equity capital markets for around 10 years.

**CHAIR:** Is it possible to split it in half, half IPO and half BookBuilds, as a trial?

**Mr BUCKNELL:** Yes, there are two ways to look at that. One is to cornerstone, so you have large blocks of shares effectively going out to people who would otherwise participate in the trade sale process. The other is it is possible to not use the BookBuilds facility for the entire transaction but only a portion of the transaction and to do a portion of the transaction through the traditional approach.

**CHAIR:** Thank you. You got a good promotion from the UK, which is a bit unusual.

**Mr BUCKNELL:** Thank you. I draw to the Committee's attention that the UK has just gone through this process for Royal Mail. They floated the assets and looked back at the process they used. They were advised by some of the leading investment banks and the recommendations came from that. I urge the Committee to look closely at the report and take that into account when making recommendations.

**CHAIR:** So the Government would make money if we followed your advice.

**The Hon. CATHERINE CUSACK:** Are you saying the investment banks will not recommend this system because it is not in their financial interest?

**Mr BUCKNELL:** I think it is reasonably safe to say that the investment banks will protect their old grounds.

**(The witnesses withdrew)**

**MILTON CAINE**, Private capacity, sworn and examined:

**CHAIR:** I welcome Mr Milton Caine to the hearing. It is nice to see you. You are our final witness for today.

**Mr CAINE:** I have come from Newcastle. I am a taxi driver. I have some education in the area of economics and accounting. I have been involved in policy development for a couple of political parties, and currently with the Christian Democratic Party.

**CHAIR:** Thank you for your submission. I invite you to make a brief opening statement.

**Mr CAINE:** What I think is imperative for us all to remember is that members of Parliament and the Parliament as a whole own nothing except for their own personal possessions. They are managers of things which are owned by the citizens of the State. They do not own anything. Therefore in order to sell an interest in something which is owned by the State I think you need to have a discussion with the owners, and I do not think that discussion has been had. In my view essentially the job of government is to care for the most vulnerable, and I wonder if and how we are actually doing that in going down this pathway.

**The Hon. ADAM SEARLE:** Are the views you have expressed in your submission and your opening statement just your own views or are they the views of your party unit?

**Mr CAINE:** I think some of the membership of the party may well concur with my views. I am not here actually officially representing the Christian Democratic Party; I am here in my own personal capacity. Hence the words I am speaking are my own personal words and research not necessarily reflecting the agreed views of the political party.

**The Hon. ADAM SEARLE:** What are your particular concerns about the current proposal to lease all of TransGrid and a majority share of Ausgrid and Endeavour Electricity for 99 years?

**Mr CAINE:** I guess the whole thing comes back to the two algebraic equations within my submission. My whole concern is about what is really in the best sustainable financial interest not of us today but of future generations. We have had funding arrangements in the past where the Government would sell bonds and use revenue from the New South Wales lotteries, which it owned until a grab for cash under the Neville Wran Government when it decided to get rid of them. Basically what has happened is that that has, in a sense, put New South Wales in the difficult financial position of having to raise capital to be able to do the things it needs to do—even just for everyday maintenance without any infrastructure development. The Government has actually lost an essential resource. The Government only gets money from what it sells, from taxes, from charges and fees and from fines. If you take away all the businesses of government then there is nothing left that they sell—whether it be power, banking services or whatever it is. So the financial future of the State is my major concern.

**Dr JOHN KAYE:** Thank you for coming, Mr Caine. It is good to see you again. I think we saw each other on the campaign trail a couple of times.

**Mr CAINE:** That is right.

**Dr JOHN KAYE:** The Treasurer and the Premier had both referred to the transaction as a once-in-a-lifetime opportunity to recycle assets and build new infrastructure. Mr Caine, what do you make of the once-in-a-lifetime expression?

**Mr CAINE:** I think the once-in-a-lifetime expression was used when the Government sold the New South Wales lotteries and I think it was used when the Federal Government sold the Commonwealth bank. I think they all say that. One of the interesting things is that the profits from the Commonwealth bank today would almost eliminate our national debt.

**Dr JOHN KAYE:** You are talking about the ongoing, recurrent profits—the returns?

**Mr CAINE:** Yes, that is right. They would virtually eliminate the Commonwealth debt. It is ridiculous that we have something which is functioning and which is bringing in money but which the Government wants

to lease. The reality is that we have a single source for getting power from one place to another—that is, the cables. As I said in my submission, many bushfires are caused by sparking. We need to do something about getting those wires underground rather than having them up in the air. The continued destruction of nature strip trees because of the conflict between the trees and the wires is also something we need to address. It makes the place look ridiculous actually, and it is about time we did something about putting the wires underground

There will be no incentive for any business owning a significant interest, whether it be by lease or by sale, in the poles and wires to actually sink those wires underground because it will cost a lot more money in the short term. It actually has benefits over the long term, because you would not have the sparking problem and you would not have to replace the poles and do all those sorts of things. So there are huge advantages but it is expensive to do. We killed off our public works departments many years ago, which could have been out there digging the trenches to sink the cables right now.

**Dr JOHN KAYE:** Mr Caine, so is it your view, based on your analysis, that a private lessee would not invest the capital to put the cables underground in order to reap the long-term benefits of reduced maintenance and reduced risk?

**Mr CAINE:** I do not think they would. The Government says it is not going to inject any additional money and claims that there is not going to be an increase in electricity prices. There may be a back door increase, and a back door increase is still an increase—in other words, it may increase taxes in some other way. The Government is already talking about taking funds from the current actual income from the poles and wires to have an electricity commissioner. That is going to require additional funds to come out of the system. Then there would not be sufficient money there from that 49 per cent of the net money to be able to do that.

**Dr JOHN KAYE:** Mr Caine, you are a taxi driver?

**Mr CAINE:** Yes, that is correct.

**Dr JOHN KAYE:** So you are in touch with a lot of people across a fairly broad spectrum of society.

**Mr CAINE:** Yes, absolutely.

**Dr JOHN KAYE:** Would you say that your views are broadly held?

**Mr CAINE:** Absolutely. There have been people get into my cab who actually support the principle of privatisation but once I explain to them what is actually going to happen they start baulking at it.

**Dr JOHN KAYE:** So it is your observation that the informed settled opinion of people once they have the facts about poles and wires privatisation is that it should not happen?

**Mr CAINE:** That is correct. Basically one important thing is that the Government will lose significant control of the network. So it will not be able to have a scheduled campaign of putting the wires underground. It just will not happen.

**Dr JOHN KAYE:** Is putting the wires underground the only significant issue in your mind or are there other issues as well?

**Mr CAINE:** There are other issues but that is one of the big ones. There are places in the Hunter valley which are continually without power. There are some places still without power now after the big storm.

**Dr JOHN KAYE:** And you would regard this as a settled view across the people you talk to in your taxi and the people you talk to in the local community? I know that you active in your local community. So you would see this view carried across all those communities you are involved in?

**Mr CAINE:** Yes, that is correct and also through my connections on Facebook. It goes beyond my local area.

**The Hon. TREVOR KHAN:** You must have different Facebook friends to me.

**Dr JOHN KAYE:** I am sure he does, the Hon. Trevor Khan. Mr Caine, have you encountered any substantial support for the proposal in any of the areas you interact with?

**Mr CAINE:** I must admit that there are some people who do support it, yes. However, when I challenge them on why they support it they really do not have a sound reason as to why. They say it is a good idea, and that is it. They do not have a sound reason.

**The Hon. ADAM SEARLE:** Well that is as far as the Government has gotten also.

**Mr CAINE:** As I said in my submission, I do not believe the Government has actually costed its own consumption, which is actually going to be an increased cost to the Government. The Government uses electricity. There is a component of charge which the Government does not need to actually theoretically pay for.

**The Hon. TREVOR KHAN:** But it does. Are you suggesting that the Government does not pay for the electricity it uses?

**Dr JOHN KAYE:** Mr Khan, you will have an opportunity to ask questions later.

**CHAIR:** The Hon. Robert Borsak is back now. Mr Borsak, do you have any questions to ask?

**The Hon. ROBERT BORSAK:** No, thank you.

**CHAIR:** Okay, we will let Dr John Kaye finish off your section.

**Dr JOHN KAYE:** Thank you. I will just let Hon. Adam Searle ask one question and then I will come back with one last question.

**The Hon. ADAM SEARLE:** Mr Caine, you are a member of the Christian Democratic Party?

**Mr CAINE:** Yes, that is correct.

**The Hon. ADAM SEARLE:** How has your party as a political party reached its view on electricity privatisation?

**The Hon. TREVOR KHAN:** Point of order: Mr Chair, I cannot see how that is in any way relevant to this inquiry. It is plainly a cheap shot. It just does not progress this inquiry in the slightest.

**Dr JOHN KAYE:** To the point of order: the Treasurer spent a large amount of time when answering my questions talking about the Labor Party's position on things. If that was valid and nobody took a point of order against that—

**The Hon. TREVOR KHAN:** Well, Dr John Kaye would have been entitled to take a point of order.

**Dr JOHN KAYE:** So is the Hon. Trevor Khan saying that the Treasurer was out of order?

**The Hon. TREVOR KHAN:** No.

**Dr JOHN KAYE:** Yes, you are.

**CHAIR:** The time for Opposition questions has expired. We will move to Government questions.

**The Hon. ADAM SEARLE:** Mr Chair, I have asked the witness a question.

**CHAIR:** I rule that question out of order.

**The Hon. Dr PETER PHELPS:** Mr Caine, you said that there has not been a discussion about the proposal for privatisation. Surely the election itself, of which the primary feature certainly for those opposed to it—

**Dr JOHN KAYE:** Point of order: I did not hear Mr Caine say at any stage, and nor did I read in his submission, that there had not been a substantial discussion about it.

**The Hon. Dr PETER PHELPS:** It was in his opening statement. Was the election itself not a discussion on the merits or otherwise of the leasing of the poles and wires?

**Mr CAINE:** In answer to the question I simply say that the election was a superficial discussion. There was incorrect information given. There was not sufficient information put out there on what the numbers actually are. That is one of the reasons why I had to use an algebraic equation in my submission. I do not know what the numbers are because they have not been disclosed.

**The Hon. Dr PETER PHELPS:** So when Mr Foley said that the election was "a referendum on electricity privatisation" was he being misleading?

**Mr CAINE:** I think for anyone to make a claim that an election is a referendum on one matter, unless they actually ask the question as they do in the United States, is mischievous to say the least. The fact of the matter is that people vote on a whole range of matters not on one single matter alone.

**The Hon. CATHERINE CUSACK:** Mr Caine, I thank you for your eloquent opening statement about the need for members of Parliament to be ethical and diligent. I wonder if you have had an opportunity to look at the Rebuilding NSW program, which I suppose is the expenditure side of the equation. Have you looked at it and do you have any thoughts about that program?

**Mr CAINE:** I have. I can tell you about just one item from my close personal experience—that is, the truncation of the rail line in Newcastle. I put up a \$3million proposal to the Minister. I gave it to her and I was given about 20 to 25 minutes of her time. I went through all the details of that \$3 million proposal. Instead the Government propose chose to destroy public transport for the most vulnerable in Newcastle. It is investing over \$150 million in a bypass. When I look at it, I think to myself: Are these the right programs? Are they the right expenditures? That is the question I ask myself, and I come up with a big fat no.

**The Hon. CATHERINE CUSACK:** Do you have any suggestions as to the governance or the expenditure of any proceeds in infrastructure that you would feel happy as a taxpayer and as a consumer that we have got it right in terms of how we should be talking to people?

**Mr CAINE:** I think that we need a lot more disclosure of information, of exactly what it is going to cost. That is why there is a lot of cost shifting that happens at this present time. Both sides of the Parliament over many years there has been this continual cost shifting all over the place and, therefore, we tend to somewhat hide the cost and then the government subsidises with a bandaid on some particular program or other and we find that there are increased charges.

There are so many things which concern me greatly about, I guess you might call it, the long-term morality of the Parliament, for it says one thing on one hand and very shortly afterwards it does a completely different thing, and that is just unacceptable. I was speaking to a manager of a property of mine—an estate agent that manages a property I own—I was speaking to him today and I gave him particular, specific instructions on exactly what I wanted him to do, and they follow it. The Parliament does not get that sort of instruction; it does not want it; we are here and it seems to consider that we are virtually absentee landlords and they are going to do what they want with it, and I think that is unacceptable. I think that it is not the way to do it.

**The Hon. CATHERINE CUSACK:** Reverend the Hon. Fred Nile is a bit of a tiger when it comes to accountability, so that is why we are having this Committee, because he wanted more transparency. Are there issues or questions that you believe we should be asking?

**Mr CAINE:** The questions come to the point of what is the total value of any guarantee that the Government will give in a prospectus? We need to know that. And will that be fully disclosed? How much is it going to cost for the Commissioner and where is that money coming from? Is that going to be considered to be a part of the cost? Because realistically, at the end of the day, there is the income currently coming from the poles and wires—that is income that the Government is getting which they are able to spend on whatever they want to spend it on. There will be costs. Every now and then there is a spark issue and there is a bushfire and it may end up costing the Government some money in regard to that. But apparently there is a guarantee that the number of



employees is not going to alter. I do not know whether that means the total number of employees—that is too vague.

Obviously there is going to be duplication because you are going to have two managers of an organisation. Are those people going to replace some of the linespeople? I do not know. I do not know where it is going to be because we do not know that. If we are going to guarantee that, how are we going to guarantee it? Because at the end of the day a company coming in to actually purchase the lease needs to be able to make sufficient funds greater than the interest rate to be able to make it worthwhile for that investment and also to be able to put some dividends towards their shareholders. That is what it is about. The question is: If the price is going to be so low that they can do that, then we have been sold short again. We were sold short on NSW Lotteries; we were sold short on all these other things, because the long-term cost has not been considered.

As I say in this submission: if New South Wales is going to be over in 10 years, this is an excellent proposal. But we plan for New South Wales to be around virtually for ever—I hope. If that is what everybody believes here then we have to do things better and differently. We have got to stop cutting off our financial income and trying to then tax our way out of how to cover the shortfall, because that is the only option open.

**CHAIR:** Just some general questions. Have you looked at what the Government plans to do with the income from the lease, the estimated \$20 billion? What is your opinion on some of those projects?

**Mr CAINE:** I have looked at what they plan to do and I guess the thing is that my big concern is that they said that the majority of the stuff was going to be spent outside the Sydney area; then during the election campaign I see thing after thing within this Sydney Basin being announced, that that is going to be funded from that, it is going to be funded from that. It really is like a drunken-sailor approach. The issue is, while some things which they are putting up may be important, the question is: are we really doing the thing that so many of our young people are doing today—going out there and buying things they cannot really afford? Making sure it is a Rolls-Royce thing they cannot really afford when they should be buying a Model T Ford? That is the question.

Are they doing the right thing? I actually do not think they are. I think what they are doing is stepping far beyond their capacity because it is good to have your name on a piece of concrete somewhere to say that you actually opened it up, or whatever else, and I think it is unacceptable, frankly. I do not know of any project that is so urgent that they need to kill off the future income that the poles and wires will produce. It is as simple as that.

**CHAIR:** That is why I was asking you whether you were aware what the major projects were.

**Mr CAINE:** I am aware of some of them, not all of them.

**CHAIR:** One was a new rail tunnel under the harbour because of all the congestion on the railways at the moment, which is delaying trains, causing people to wait on stations and so on.

**Mr CAINE:** As I say, I think you have got to find a better way to fund them. Those things may be good. If one was to look at my website they would see that I propose a very fast train to connect Newcastle to the city via the northern beaches, which would end up funding itself because a 10-minute trip on a very fast train from the northern beaches into the city would mean one-third of your traffic on the Harbour Bridge would be gone, one-third of your traffic in the tunnel would be gone.

**CHAIR:** You need that tunnel under the harbour then.

**Mr CAINE:** That is correct, but where are they going to put it and is it going to accommodate a very fast train? I just see the projects as being half-baked; I do not think they are fully worked out because they just see there is some money there and "We have got to do it now because we are in power now and we want to do it". I think we need to think long and hard about what we do. We should not spend what we do not have and we should not cut off our income.

**CHAIR:** Thank you very much for taking the trouble to supply your submission and to come all the way from Newcastle. We appreciate your views.

**(The witness withdrew)**

**(The Committee adjourned at 5.23 p.m.)**