

REBUILDING NSW DISCUSSION PAPER

AUGUST 2014

Rebuilding NSW – Discussion Paper

August 2014

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1 INTRODUCTION

On 10 June 2014, the NSW Government announced Rebuilding NSW, a plan to invest \$20 billion in infrastructure, funded from the partial lease of NSW electricity networks.

The benefits will be realised by both regional and metropolitan communities. The priority areas for investment include public transport, urban and regional roads, water, hospitals, schools and cultural and sporting infrastructure. These are projects that will improve services, increase opportunity and grow the economy.

Regional communities in particular will benefit from \$6 billion committed from the proceeds of the partial lease of electricity networks including much needed road and water infrastructure, and schools and hospitals to meet rising demand for access to quality services.

Infrastructure NSW has been tasked with updating the State Infrastructure Strategy (SIS), taking into account these proposed additional funds available in Restart NSW as well as the Government's strategic infrastructure priorities in cities and regions. An updated SIS will be provided to Government by the end of 2014. Restart NSW is a proven investment vehicle enabling funds to be committed exclusively to much needed infrastructure. Significant priorities identified by the Government include:

- Sydney Rapid Transit;
- Sydney Roads;
- a Schools and Hospitals Fund;
- a Regional Roads Fund;
- a Regional Water Fund; and
- a Sporting and Cultural Fund.

The Government has set out a number of strict conditions to protect the public interest in the electricity networks for the partial lease of these assets, including:

- all net proceeds will be invested in new productive infrastructure;
- electricity network prices will be discounted by 1% off regulated prices until 2019;
- the jobs of employees will be protected, and treated consistently with previous transactions;
- the transaction will have no adverse impact on electricity reliability, with tight regulation by Government remaining;
- the regional presence of the network businesses will be maintained; and
- Essential Energy will remain in full public ownership.

For more details on this initiative please visit www.rebuilding.nsw.gov.au.

1.1 Rebuilding NSW consultation process

The Government has established a consultation process through the Department of Premier and Cabinet (DPC) to gather community views on the implementation of Rebuilding NSW, including the partial lease of electricity networks and potential priorities for infrastructure.

The consultation process will:

- provide information to NSW communities on the purpose of investments, how they will be funded, conditions for partial leasing of assets and strategic priorities of the Government;
- include meetings with key stakeholders and community groups across the state; and

- seek submissions on investment priorities and the proposed partial lease of the electricity networks.

DPC will report back to Government towards the end of 2014 with a Final Report detailing the outcomes of the consultation process.

1.2 Purpose of this paper

This paper has been prepared to facilitate consultation on Rebuilding NSW. It sets out the proposed approach for Rebuilding NSW and highlights specific issues on which we are seeking stakeholder input.

Expert reports on specific issues will also be released throughout September to further inform the consultation process.

1.3 Providing input to the consultation process

We invite all interested parties to make an initial submission to DPC in response to the Discussion Paper. Submissions are due by **19 September 2014**.

Further submissions will be sought prior to finalising the report to Government, taking into account additional information that becomes available during the course of the year. The expert reports will become available on the Rebuilding NSW website and we encourage you to **subscribe** to receive updates as the reports are released.

2 PROPOSED INFRASTRUCTURE INVESTMENT PROGRAM

The population of NSW is expected to reach 9.2 million by 2031, with Sydney growing to a population of 5.9 million people. This growth provides an opportunity to continue to develop Sydney, but also imposes a need to keep ahead of future requirements for housing, education, health, water, roads and public transport. The investment required by both Government and the private sector will be substantial. Rebuilding NSW presents an opportunity to meet these needs, without the Government taking on significant new debt or reducing investment in services.

The Government has a clear plan for infrastructure investment made possible by the proceeds of the partial leasing of electricity networks. For such a large investment program, the community expects a robust governance framework to ensure that commitments are followed through, and are delivered on time and on budget. The SIS is being updated to take account of new funds released for investment, as well as strategic priorities identified by the Government. The SIS will be consistent with broader Government planning, including the Sydney Metropolitan Strategy, the Long Term Transport Master Plan, regional strategies, as well as NSW 2021.

2.1 Framework for funding new infrastructure

Since 2011, the NSW Government has introduced important changes to ensure community confidence in infrastructure funding and delivery. This includes establishing Infrastructure NSW (INSW) as an independent adviser to the Government, with the mandate to identify priority projects for delivery. In 2012, the Government acted on the advice of INSW by releasing the SIS, which sets out the Government's infrastructure investment priorities over the next 20 years in line with the availability of funds in the NSW Budget.

In addition, the Government has established Restart NSW as a dedicated fund for priority infrastructure projects. Restart NSW has received proceeds from previous asset transactions

such as Port Botany and the Sydney Desalination Plant as well as money from windfall tax revenue in excess of Budget forecasts and Waratah Bonds. The Government has also, where possible, sought to involve the private sector in the financing and delivery of priority projects, freeing up additional resources for other essential infrastructure or services required by the community.

Several projects are already in the delivery phase, including the North West Rail Link (under construction), WestConnex (Stage 1 currently going through tender processes), Sydney Light Rail (tenders currently under evaluation), NorthConnex (currently seeking planning consent), Darling Harbour (currently under redevelopment) and the upgrade of the Pacific Highway (construction underway).

Rebuilding NSW would be implemented through the vehicle of Restart NSW and with the discipline Government has created to manage allocation of funds. INSW is preparing a revised SIS that takes into account proposed new infrastructure investments made possible by the transaction proceeds. The Government intends to deposit funds released from the network assets into Restart NSW, ready for reinvestment in new productive infrastructure for the State. These measures will provide funding certainty for new projects.

The Government has identified the following strategic priorities for funding:

- Sydney Rapid Transit - reducing congestion across the rail network by way of a second Harbour rail crossing and Western Extension, providing rapid transit to more commuters in the North West, Bankstown and Inner West.
- Sydney Roads Renewal – including two new WestConnex extensions to the North and South, as well as projects to support the Northern beaches and Inner West.
- The Regional Roads Fund – for roads and bridges in regional areas, eliminating the need for diversions, delays and backtracking, with an expected contribution of at least \$1 billion.
- The Regional Water Fund – for water security and quality in regional areas, with an expected contribution of at least \$1 billion.
- Schools and Hospitals Building Fund – to deliver new educational and public healthcare facilities, with an expected contribution of at least \$2 billion.
- The Sport and Cultural Infrastructure Fund – new and upgraded sporting facilities and investment in cultural infrastructure, with an expected contribution of at least \$500 million.

Government agencies have been working for some years on the development of projects identified in Rebuilding NSW. Two major infrastructure priorities included as part of Rebuilding NSW, Sydney Rapid Transit and the Sydney Roads Renewal package, were both previously identified in the SIS and the Long Term Transport Master Plan as future priorities for the Government in the long term, or earlier if additional funding became available.

The Government seeks comment on the following:

- a. *How can the Government help communities and businesses to better plan for the opportunities made available as a result of new infrastructure investment?*
- b. *Which potential projects would create the greatest benefit in terms of economic growth, productivity and quality of life?*

2.2 NSW Government funding can be boosted through co-investment

While the proceeds of the transaction would enable new investments, it is important to understand that government funding of major projects does not usually occur directly from Budget revenue alone. There are many proven infrastructure financing arrangements available to deliver projects and leverage off the funds available in Restart NSW. It is likely that priority investments will be financed via a combination of the following options:

- *co-investment with the private sector* (such as public-private partnerships) – this is the basis of current projects such as NorthConnex, WestConnex and Northern Beaches Hospital;
- *Commonwealth Government project specific grants* – the Commonwealth is making direct contributions to NorthConnex, WestConnex and the Western Sydney roads package to support a new airport at Badgerys Creek;
- *progressive recycling of assets* – WestConnex will be in part financed by progressively building stages and then leasing completed stages to the private sector in order to fund further road investment.

These options may be considered as part of the revised SIS, and are always undertaken with a view to prudent fiscal management and maintaining the NSW Government's AAA credit rating.

The Government seeks comment on the following:

- c. Are there other ways to leverage NSW Government investment to expand infrastructure services across the State (eg: deliver more infrastructure for the same amount of Government funding)?*

3 MAXIMISING RETURNS FOR NSW

The Government proposes that capital released from electricity networks be reinvested in productive infrastructure that will support the growth of the State. The Government recognises that the electricity networks produce income for government and that those businesses have value. Partial leasing means receiving some of these payments upfront. In this way, the upfront payment can be used for investment in much needed infrastructure that would otherwise not proceed or would be delayed by many years. The OECD has previously estimated that for every additional dollar of investment in infrastructure in Australia, economic output will increase by \$1.10 to \$1.30¹.

Some areas for new investment will generate new income for government, but this should not be the main criterion for government investment. Infrastructure investment can increase society's wealth and wellbeing by directly increasing the productive assets of the State, increasing labour market participation and enterprise through investment in education and health, and growth industries.

The Government remains committed to prudent budget management, maintaining its AAA credit rating and providing improved services. Rebuilding NSW will support those objectives.

3.1 The Government will maintain majority ownership of the businesses

The Government is investing \$20 billion in infrastructure, but will retain overall majority ownership of the electricity networks. The Government will continue to receive revenue in proportion to its share of the network businesses.

¹ Commonwealth of Australia, Budget Strategy and Outlook: Budget Paper No. 1, 2009-10, p 4-6.

The approach to the transaction will be carefully considered by the Government before proceeding, subject to the outcome of the 2015 NSW election.

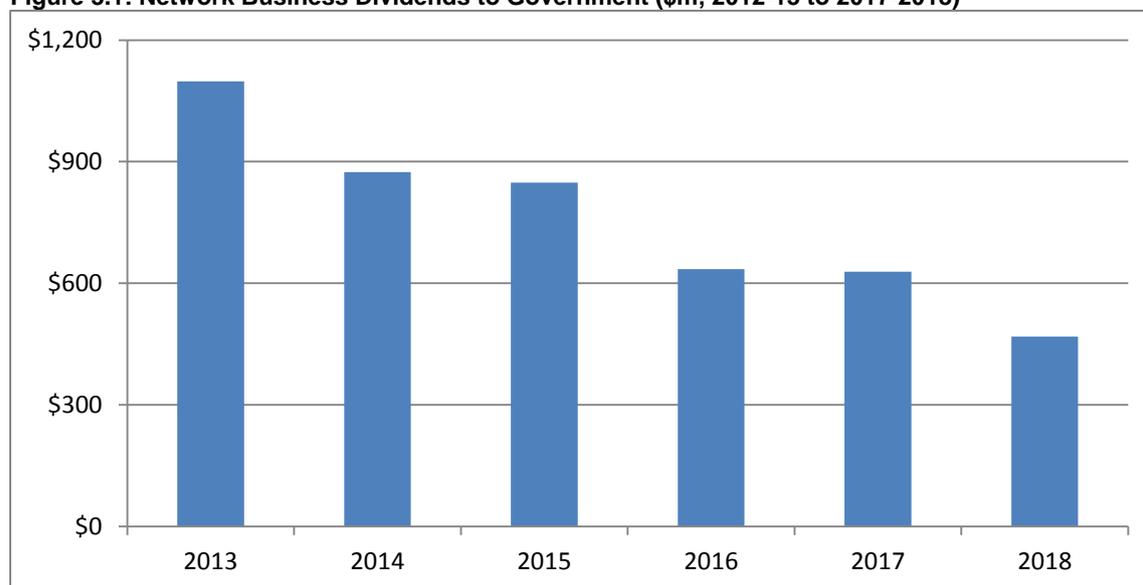
A Scoping Study will be undertaken by Government to consider the form of transaction, timing and stages, expectations of proceeds, how to manage retained holdings, and post-transaction arrangements. This is a detailed process that will take some time to complete. The Scoping Study is expected to report back to Government in November 2014.

3.2 Ensuring good value for State assets

There are four reasons why the NSW Government believes that Rebuilding NSW will deliver value for the State:

- The NSW Government has had a string of successful asset recycling transactions; in each case returning more to the State in up-front payments than could have been achieved by holding onto those assets to retain ongoing income. That is, the value generated by the transaction far exceeded the value of the dividend and other income payments associated with continued ownership of the asset. Recent examples include the refinancing of the Sydney Desalination Plant, leasing of Port Botany and Port Kembla, and the leasing of the Port of Newcastle, all of which brought in proceeds well above expectations.
- NSW will reduce its exposure to the risks and calls on capital that comes with owning and operating these businesses. The income from government owned operating businesses can vary from year to year, and the owners of those businesses can be called upon to provide capital for expansion, or to provide guarantees for the businesses to borrow money. Figure 3.1 demonstrates this point clearly in relation to the NSW electricity network businesses.

Figure 3.1: Network Business Dividends to Government (\$m, 2012-13 to 2017-2018)



Source: NSW Government 2014-15 Budget Paper 2, Table 6.9, p 6-27.

- The Government believes that current conditions provide an opportunity for the community of NSW to receive very strong returns from partially leasing electricity network assets. Many investors, including superannuation funds, have a strong appetite for large utility and infrastructure assets, and there are few remaining opportunities to acquire a stake in such businesses in Australia. Further, interest

rates remain favourable, with a direct impact on the price investors are prepared to pay for good quality assets.

- The Commonwealth Government asset recycling incentive, announced in May 2014 as part of the Commonwealth budget, will extend the proceeds of the partial lease and further boost NSW's capacity to invest in critical infrastructure, as detailed below.

3.3 Commonwealth incentives for asset recycling in NSW

NSW Government investment in productive infrastructure as part of Rebuilding NSW will be enhanced by incentives under the Commonwealth's asset recycling initiative. These incentives could add up to \$2 billion of Commonwealth funding to invest in new productive infrastructure in NSW, but are available only to states that agree by 2016 to divest assets and invest in new infrastructure by 2019.

Asset Recycling Initiative helping states unlock their balance sheets

The Commonwealth Government's Budget includes \$5 billion to establish the Asset Recycling Initiative - a key element of the Infrastructure Growth Package - to provide incentive payments to states and territories that sell assets and reinvest the sale proceeds to fund world class infrastructure across Australia.

Under this historic partnership, states and territories will be encouraged to unlock capital in their balance sheets to fund new investment in productive infrastructure across the country. If some of the proceeds are used for other purposes, the incentive payment will be reduced proportionally.

The Asset Recycling Initiative will create opportunities for investors, including Australian superannuation funds, to invest in quality infrastructure assets around Australia. This Initiative will leverage a significant increase in private sector investment by putting assets previously owned by the government in private hands. Over time these investors are likely to increase capital investment in the newly privatised entities to improve market share and to grow their businesses.

In a sign of strong support from states and territories for the Government's commitment to get infrastructure investment moving, all governments signed the National Partnership Agreement on Asset Recycling at the Council of Australian Governments meeting on 2 May 2014. This unanimous support for the agreement demonstrates constructive and cooperative federalism at work.

Source: See, Budget 2014-15:

http://www.budget.gov.au/2014-15/content/glossy/infrastructure/html/infrastructure_04.htm

The Government seeks comment on the following:

- d. *In addition to asset recycling, what other avenues are available to the Government to bring forward significant capital expenditure on infrastructure? Any proposal should discuss the consequences on State finances.*

4 COMMITMENT TO REGIONAL NSW

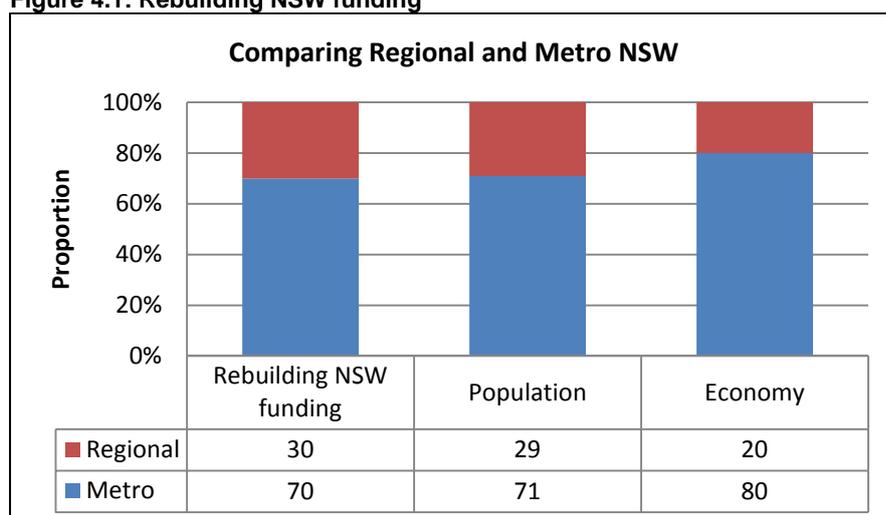
The Government has committed that, under Rebuilding NSW, \$6 billion will be set aside to help alleviate the infrastructure backlog impacting regional and rural NSW. This includes new road, water, health and education projects to revitalise our regional communities.

4.1 Regional NSW infrastructure investment

Restart NSW guarantees a 30% allocation of funding to projects based in regional and rural NSW, and the Government is expanding this principle to Rebuilding NSW by setting aside \$6 billion for projects delivered in regional communities. Included within this \$6 billion commitment is a Regional Roads Fund, with an expected contribution of at least \$1 billion in funding to invest in upgrades to the regional road network. There will also be a dedicated Regional Water Fund with an expected contribution of at least \$1 billion in funding to improve water quality and security in regional NSW.

Guaranteed allocation of 30% of funding for new infrastructure would provide strong outcomes for regional NSW. With approximately 29% of the State's population and generating around 20% of gross state product,² regional and rural communities across NSW will share in the transformation impact of Rebuilding NSW.

Figure 4.1: Rebuilding NSW funding



To ensure the Government takes into account the views of regional communities, the Rebuilding NSW consultation process seeks the views of key stakeholders and members of the public on priority projects. This process will include meetings with local government and other stakeholders with an interest in regional infrastructure, and a written submission process for communities to have their say.

The Government seeks comment on the following:

- e. *Please provide examples of specific infrastructure projects in regional NSW that would contribute to the productive capacity of the economy.*
- f. *How can regional communities share in the benefits of Rebuilding NSW, including economic productivity and jobs creation?*

² Population figures taken from 2011 Census (ABS QuickStats), economic indicators taken from NSW Parliamentary Library briefing papers 16/2011 (Hunter GRP), 18/2011 (Illawarra GRP) and 6/2012 (Greater Sydney GRP). Regional NSW defined as excluding metropolitan Sydney, Newcastle and Wollongong.

4.2 Essential Energy will remain under government ownership

The Government has set out conditions for the divestment of the electricity network businesses and this includes continued government ownership of Essential Energy.

The scope of Essential Energy's business covers the majority of the state. It spans south from Batemans Bay to the Victorian border, north from Port Stephens to the Queensland border and west from Oberon to the South Australian border, including all of Western and North Western NSW. It distributes energy to approximately 800,000 customers across regional NSW, and employs around 4,300 people, including the headquarters at Port Macquarie.

4.3 Appropriate protections are in place for regional jobs and services

Employment opportunities provided by essential services and government agencies are important in many regional and rural communities across NSW, a fact recognised by the Government's *Decade of Decentralisation* policy to relocate jobs to the regions. Essential Energy employs around 4,300 people in regional locations, and the other network businesses also have employees based across the state. These jobs are an important part of the local economy for many communities, and Rebuilding NSW recognises that.

It is important to understand that network employees are not based in regional communities simply because the Government has directed this to occur. Electricity distribution requires highly skilled employees for technical roles servicing complex equipment. For example, a storm damaged line, an old power pole, a failed transformer or worn-out switch-gear can only be maintained or replaced in the part of the network where it resides.

The distribution of network employment across NSW is determined by the location of the electricity assets, and it is necessary that these assets be close to the communities they serve. This is a fundamental fact of electricity distribution, and not merely a matter of government policy.

For this reason, work on regional electricity networks needs to be undertaken in rural and regional areas. Partial lease of the network businesses does not remove the need to build, maintain and operate the electricity networks. Building a local skilled workforce would always be required.

To provide additional assurance, the Government committed to a guarantee for permanent award employees, and has also committed to maintaining the regional presence of the electricity networks.

5 PROTECTING THE LONG TERM INTERESTS OF CONSUMERS

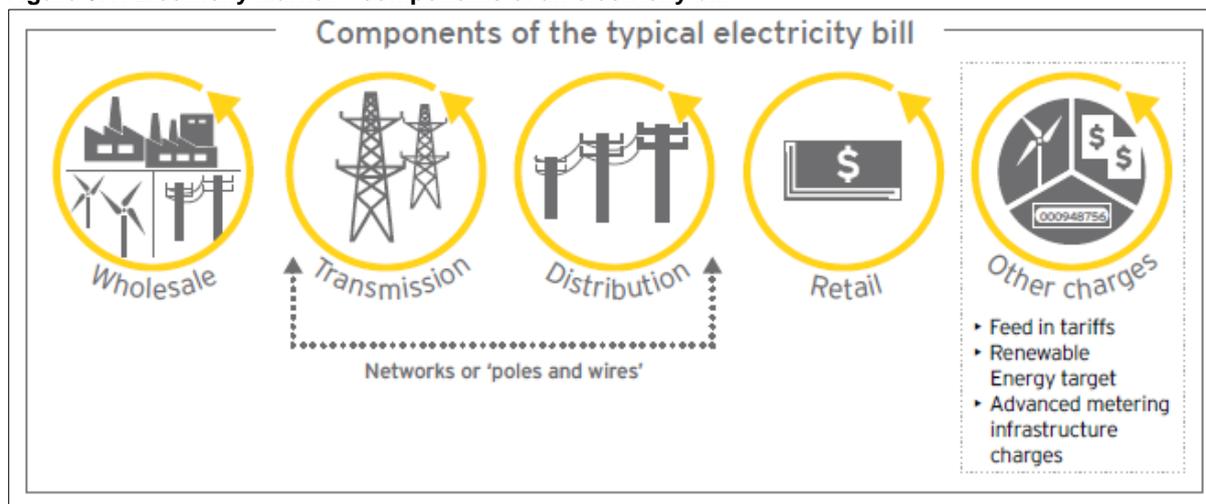
The Government recognises that electricity is an essential service and that consumer interests need to be protected. The main protection for consumers is the regulatory framework that will continue to exist:

- The national and independent regulator, the Australian Energy Regulator (AER) will continue to regulate electricity network prices in accordance with the national set of rules.
- The AER's price setting process applies to all network businesses regardless of public or private ownership.
- The AER determines the efficient costs of the network business to provide its services to customers.

5.1 Electricity networks are only one part of an electricity bill

The electricity market has three principal components that work together to deliver electricity to homes and businesses – wholesale generation, networks and retail.

Figure 5.1: Electricity Market – components of an electricity bill



Source: Ernst & Young, *Electricity Network Services: Long-term trends in prices and costs*, A report for NSW Treasury, 2014, p 4.

A good understanding of the composition of electricity bills is important. The Productivity Commission urged stakeholders to be cautious about comparing total electricity prices or bills as a measure of electricity network prices in its review of regulatory frameworks for electricity networks:³

*“Some have claimed that privatisation may increase electricity prices. For example, the ETU noted that South Australia (which had privatised network businesses many years ago) had the highest prices for electricity. However, the relevant issue for privatisation of network businesses is **not** electricity prices — which are strongly influenced by generation and other non-network costs — but the **network** contribution to those costs. In 2010-11, New South Wales and Queensland had significantly higher network costs than other states, which are likely to reflect genuine differences in the nature of their networks, but also lower levels of efficiency.”⁴*

³ Productivity Commission 2013, *Electricity Network Regulatory Frameworks*, Report No.62, Canberra, p 284.

⁴ DPC has added bolding to highlight the words.

5.2 Network prices are regulated by the Australian Energy Regulator (AER)

Electricity network prices are independently regulated by the AER, and this will continue to be the case irrespective of ownership arrangements. The AER is an independent entity and its functions are governed by the National Electricity Law and National Energy Retail Law. Its purpose is to:⁵

- set the prices charged for using electricity poles and wires to transport energy to customers;
- regulate the retail energy market, including enforcing compliance with retail legislation; and
- publish information on energy markets.

The NSW network electricity businesses are required to develop a proposal that the AER reviews and must approve before prices can change. This requirement will not change.

The AER has recently been involved in a process to strengthen the arrangements for how prices are set for the long-term benefits of consumers, including better customer engagement, better treatment of excess expenditure and new methods of calculating return on capital. The upcoming AER determinations for NSW network businesses from 2014 to 2019 will proceed under these new arrangements.

5.3 NSW consumers benefit from increased efficiency

The Government expects that NSW electricity networks will become more efficient over time as a result of partial leasing, and that consumers will benefit as has occurred in other States. A number of studies or reviews have found that network prices in NSW are consistently, or close to, the highest in Australia, for example:

- Ernst and Young shows that for a typical annual retail electricity bill in NSW, network costs have increased substantially over time and are currently the highest compared to other states such as Victoria and South Australia.⁶
- The Grattan Institute shows that customers in NSW pay an average of near \$1000 a year to use the power network, which is one of the highest average costs across all states – only Tasmania has higher average network costs.⁷
- In a separate report, the Grattan Institute states that “if government owned companies invested in their infrastructure at the same rate as privately owned companies, customers of government owned companies could save up to \$640 million per year (in 2010 dollars).⁸
- The Productivity Commission noted that by 2014-15 NSW network costs will be 21% higher than costs in Victoria.⁹

⁵ See AER’s website: <http://www.aer.gov.au/about-us>.

⁶ Ernst&Young, Electricity network services: Long-term trends in prices and costs, a report for NSW Treasury, 2014, pp 6-9.

⁷ Wood, T., Carter, L., and Harrison, C. (2014), *Fair pricing for power*, Grattan Institute, p 5.

⁸ Wood *et al*, (2012), *Putting the customer back in front: How to make electricity cheaper*, Grattan Institute, p 30.

⁹ Productivity Commission 2013, *Electricity Network Regulatory Frameworks*, Report No.62, Canberra, p 109.

5.4 Electricity network prices will be discounted by 1% until 2019

To ensure that consumers benefit immediately from the time of the transaction, the Government has made it a condition of the transaction that electricity network prices will be discounted by 1% off the prices set by the AER, from the time of the transaction until 2019.

The network businesses must comply with this direction as part of the conditions for leasing the businesses and the network price discount will be passed on to retailers. The Government expects that this benefit will be passed on to consumers and will encourage consumers to seek the best possible price from retailers. If a retailer attempts to keep the 1% price discount, other retailers competing with them are perfectly placed to offer customers a better deal.

5.5 Regulation is more effective for consumer protection than public ownership

Evidence shows that regulation is a much more effective control on prices than State ownership, and that private ownership puts greater downward pressure on prices.

The Chairman of the Australian Competition and Consumer Commission (ACCC), Mr Rod Sims considers NSW electricity prices would now be significantly lower if these assets had been privatised some years ago.

The Chairman of the ACCC, Rod Sims, on regulation, ownership and economic efficiency:¹⁰

"Having been closely involved with many government-owned infrastructure businesses, especially in rail and electricity, but also in other sectors, I am personally a strong advocate of privatisation. With sound regulation the private sector will operate these businesses more efficiently as they will have better incentives for, and impose fewer constraints on, performance.

An example of this is the proposed partial long term lease of the NSW electricity network assets. In my view such a sale can benefit NSW electricity consumers as network costs and therefore prices can be lower than otherwise.

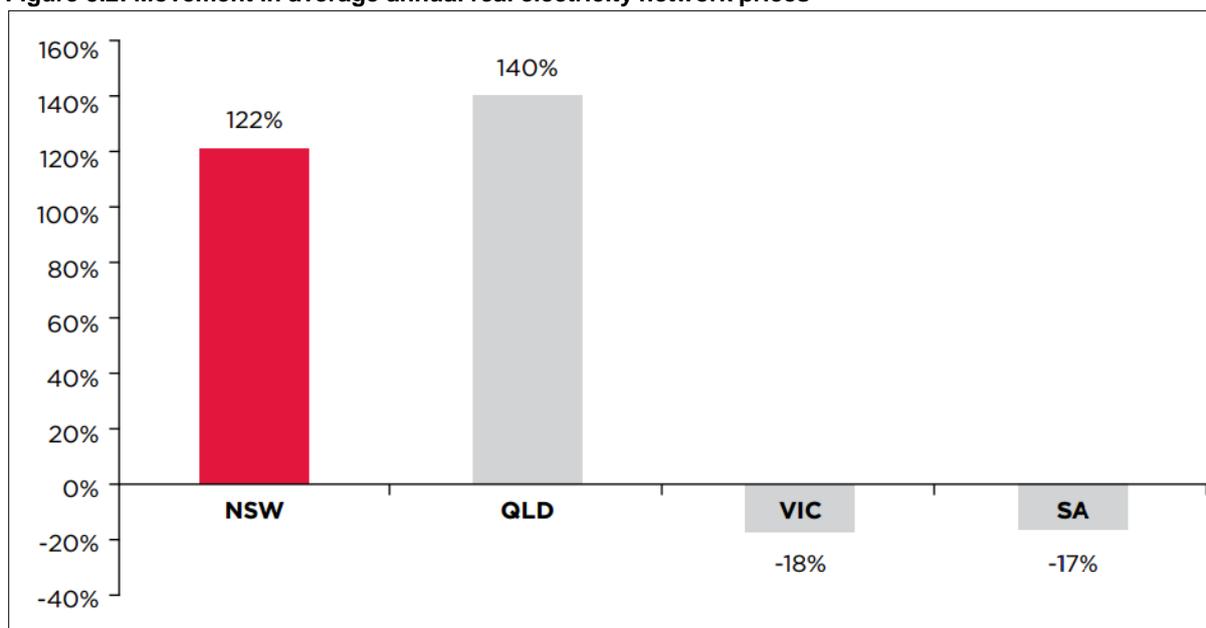
Indeed, in my personal view, NSW electricity prices would now be significantly lower had the NSW electricity network assets been privatised, say, five years ago.

An improved regulatory regime for electricity network assets is now in place, and we understand the NSW Government will not seek to constrain this, now or in the future, as a result of the privatisation."

Electricity network prices in Australia have not risen because of private ownership. On a like for like basis, residential customers in Victoria pay significantly less than NSW households, nearly 20 years after a change to private ownership, and Victorian prices have risen much less than in NSW. South Australian households pay amounts similar to NSW households. This is despite having low population and very peaky demand. Electricity networks in South Australia have been privately owned for many years.

¹⁰ Mr Rod Sims, *Regulating for efficient infrastructure outcomes*, ACCC/AER Regulatory Conference 2014, 7 August 2014, pp 2-3.

Figure 5.2: Movement in average annual real electricity network prices



Source: Ernst & Young, *Electricity Network Services: Long-term trends in prices and costs*, A report for NSW Treasury, 2014, p 6.

Note: NSW and Queensland for period 1996/97 to 2012/13; Vic from 1996 to 2013; SA from 1998/99 to 2010/11

Some commentators have suggested that increases in electricity network prices in NSW are evidence of inadequacies in the regulatory arrangements. A review of regulatory arrangements undertaken by the Australian Energy Markets Commission in 2012 concluded that the system was largely effective and that the causes for rapid increases in NSW network prices lay elsewhere, including in the governance of businesses.

Recent reviews have supported the view that regulation is the most appropriate way to protect consumers, rather than public ownership. The National Commission of Audit states that:¹¹

*“Where market failures exist there may be a case for government ownership of services, but only where it is the most efficient and effective response to this market failure. In practice, competition and monopoly issues are often better addressed through appropriate **regulatory** frameworks rather than through government ownership.”*

Similarly, the Productivity Commission notes:¹²

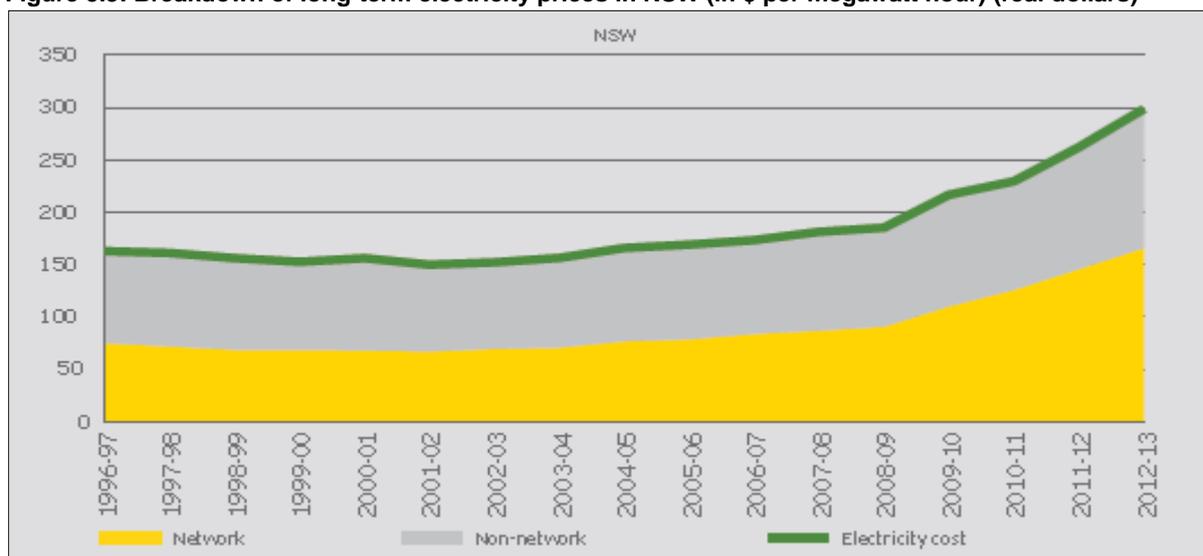
“...regardless of ownership, all network businesses in Australia are subject to the National Electricity Rules, which constrain the exercise of market power. Consequently, assertions that market power justifies government ownership are not compelling, and the evidence on prices substantiates this.”

State ownership has not protected NSW consumers from rapidly increasing electricity network prices. Figure 5.3 shows the long term change in retail electricity prices by component, with 67 per cent increase from network prices and 33 per cent from non-network.

¹¹ See, <http://www.ncoa.gov.au/report/appendix-vol-2/10-19-privatisations.html>, [accessed 18 July 2014], bolding added for emphasis.

¹² Productivity Commission 2013, *Electricity Network Regulatory Frameworks*, Report No.62, Canberra, p 284.

Figure 5.3: Breakdown of long-term electricity prices in NSW (in \$ per megawatt hour) (real dollars)



Source: Ernst & Young, *Electricity network services: Long-term trends in prices and costs*, a report for NSW Treasury, 2014, p 8.

The Government seeks comment on the following:

- g. How much scope is there for consumers to benefit from greater efficiency in NSW electricity networks?*

6 SERVICE & RELIABILITY GUARANTEES

Some stakeholders have expressed concern about the effect leasing electricity networks to private investors will have on the reliability of electricity supply. One view put forward is that privately owned utilities reduce maintenance to maximise their profits, which affects reliability. However, minimum reliability standards are set by government regulation, regardless of who owns the electricity network.

6.1 Network reliability is governed by regulation

The NSW Government determines distribution reliability standards. This will not change. The Government has committed that the transaction will have no adverse impact on electricity reliability. The regulation of service standards, ie reliability and service performance, is split between state governments and the AER respectively.

In NSW, the government sets average reliability standards that a network business must meet to comply with its licensing conditions. Further, the government sets network planning requirements on distribution businesses.

The AER is responsible for setting the overall economic regulation of electricity distribution businesses, and reliability standards are a major part of the framework.

The Government seeks comment on the following:

- h. Are there any other matters that the Government should consider in ensuring network businesses comply with service and reliability standards?*

6.2 Network performance is measured independently

The electricity network businesses are subject to a number of regulations on network reliability as part of their licensing agreements, which will remain in place should transactions occur. All network businesses, to comply with their licences, must meet network performance standards in terms of reliability.

The NSW Minister for Resources and Energy and IPART respectively, license and monitor the licence compliance of network businesses in NSW. IPART administers the licensing regime on behalf of the Minister and may also impose monetary and non-monetary penalties and take other action it considers appropriate against licensees for contravention of licence conditions.¹³

Reliability is typically measured in terms of customers experiencing power outages that have not been planned by the business and communicated to customers. The key measures of distribution network reliability in Australia are:

- system average interruption duration index (SAIDI) which measures the average length of time customers experience power outages
- system average interruption frequency index (SAIFI) which measures the average number of times customers experience power outages.

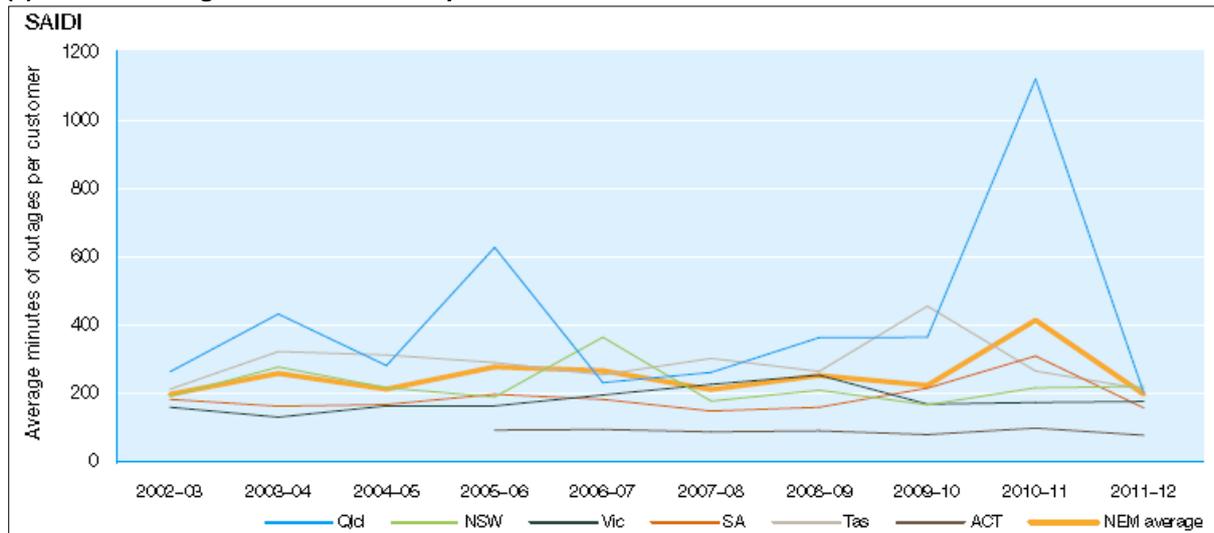
6.3 Reliability appears stable regardless of ownership structure

A comparison of reliability performance across states indicates that:

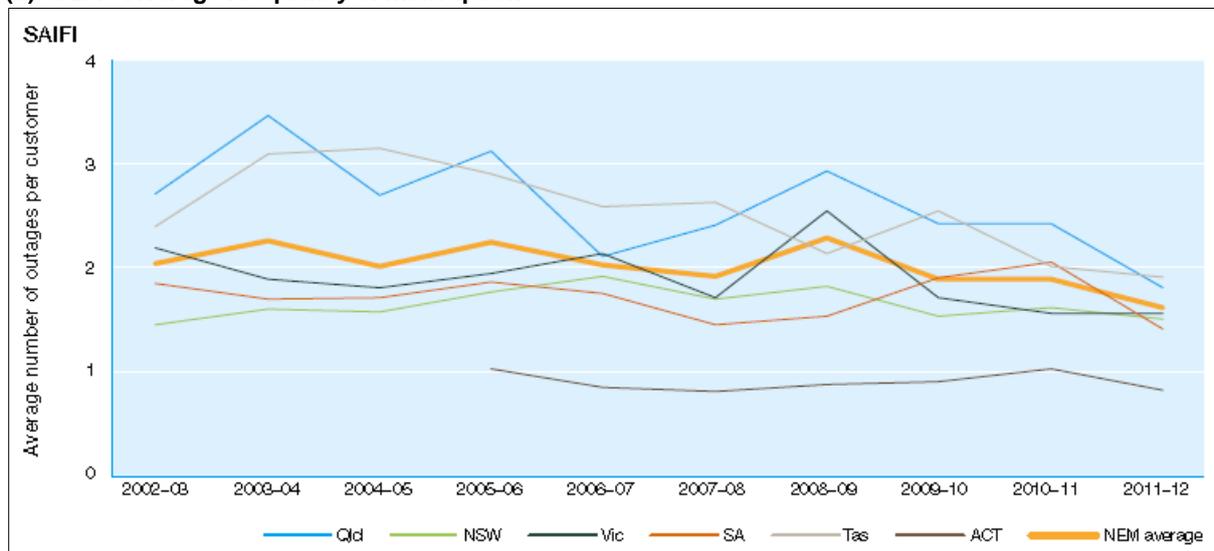
- the average length of time that a customer experiences interruption (SAIDI) remained relatively stable over the years, including for privately owned businesses in Victoria and South Australia. A spike in Queensland was due to a prolonged outage associated with major flood damage.
- the average number of times a customer experiences outages (SAIFI) declined over the years, including for privately owned businesses in Victoria and South Australia.

¹³ See IPART's website: <http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Licensing>.

Figure 6.1: Measures of distribution network reliability
(a) SAIDI – Average Duration of Interruption



(b) SAIFI - Average Frequency of Interruption



Source: Australian Energy Regulator, *State of the Energy Market 2013*, p 81.

The evidence does not support the assertion that privately owned electricity networks allow deterioration of service standards. Also, at this time, the statistics do not show that the high levels of investment and price increases borne by NSW households have delivered a higher level of reliability than other states.

According to the Productivity Commission:¹⁴

The evidence suggests that privatisation does not adversely affect reliability. Measures of reliability (such as the system average interruption duration or SAIDI and the system average interruption frequency index or SAIFI) are not worse in Victoria or South Australia. Indeed, over the 10 year period from 2000-01 to 2009-10, Victoria and South Australia had the lowest SAIDI among the NEM regions, while South Australia had the lowest SAIFI (and Victoria the third lowest).¹⁵

¹⁴ Productivity Commission 2013, *Electricity Network Regulatory Frameworks*, Report No.62, Canberra, pp 284-85.

¹⁵ NEM is the National Electricity Market.

What about safety and emergency situations?

NSW network businesses are required to comply with the *Electricity Supply (Safety and Network Management) Regulation 2008* (NSW).¹⁶ The regulation includes a condition that, if notified by the relevant Government Departmental Secretary, a network operator must lodge and implement a network management plan. The plan consists of dealing with:

- network safety and reliability;
- customer installation safety;
- public electrical safety awareness; and
- bush fire risk management.

Further, NSW network businesses participate in the NSW Wires Down Sub Plan in compliance with the *State Emergency & Rescue Management Act 1989* (NSW). The Plan's aim is to make safe a "wires down" situation or similar incident involving electricity overhead lines. The Plan applies to the NSW Emergency Services Organisations and NSW Network Service Providers and the operations concerned with making safe a wires down situation or similar incident involving electricity overhead lines.

6.4 Customer service and safety standards will be maintained

Network businesses report on their responsiveness to customer concerns, including:

- timely connection of services;
- call centre performance; and
- customer complaints.

The Energy & Water Ombudsman of NSW (EWON) is the government approved dispute resolution scheme for New South Wales electricity and gas customers, and some water customers. Electricity networks are required to participate in an approved ombudsman scheme, and this will not change. EWON will continue to play an important role in providing high quality, independent dispute resolution and to help raise customer service standards in the energy and water industries.

What about public safety and bushfires?

The NSW Government will not lose or reduce its right to regulate the networks as a result of any partial divestment. Network operators must still comply with the law.

Unfortunately, severe bushfires do happen in Australia and some bushfires are caused by power-lines, whether or not networks are publicly owned. There have been fires in NSW (publicly owned) and Victoria (privately owned) that have been found to be started by electrical equipment. The 2009 Victorian Bushfires Royal Commission made eight recommendations relating to Electricity Caused Fire. None of these recommendations is impacted by ownership, with the bulk implemented through regulatory requirements.

The Government seeks comment on the following:

- i. Considering existing service standard protections for customers will remain in place, what concerns remain about service standards and public safety? Is there any reason why the Government should consider any further conditions, and why?*

¹⁶ The Electricity Supply (Safety and Network Management) Regulation 2008 is presently being remade. However, section 8 of the 2008 Regulation appears to be consistent with section 7 of the public consultation draft of the proposed 2014 Regulation).

7 PROTECTING CONDITIONS FOR NETWORK EMPLOYEES

The Government has committed to protecting the jobs of permanent award employees consistent with previous transactions. Further, the Government has announced an initiative to promote apprenticeships arising from the infrastructure investment that will flow from the funds raised from the partial lease of the network businesses.

7.1 Network employee guarantees

The guarantees proposed for electricity network employees are beyond those enjoyed by most in the community. The Government has included the guarantee to ensure the businesses and their employees have time to adjust to work arrangements in the future and are specific to the requirements of this particular transaction and sector. However, job guarantees and protections on employment conditions come at a cost, and those costs are generally borne by customers in their electricity bills. With that in mind, a balance should be sought between providing transitional security for employees, and keeping downward pressure on the cost of providing network services.

Regardless of the types of guarantees offered, NSW is well placed to deliver employment opportunities to skilled workers. Economic growth in NSW has recently been outperforming the national average and is expected to continue to do so in the future. The unemployment rate in NSW in July is 5.9%, below the national average of 6.4%,¹⁷ and with expected above-average economic growth in the next 2 years, is forecast to decline.¹⁸ In addition, the Government proposes \$20 billion of new investment in infrastructure that will drive the economy and creation of jobs and economic opportunity.

The Government seeks comment on the following:

- j. Taking into account the Government's employment guarantee condition on the proposed transaction, are there other relevant considerations regarding jobs?*
- k. What is the appropriate balance between providing security to employees in the transition and keeping downward pressure on the cost of providing network services?*

¹⁷ Australian Bureau of Statistics, *Labour Force Commentary July 2014*, Latest Issue: Released at 11:30 AM (CANBERRA TIME) 07/08/2014.

¹⁸ NSW Budget 2014-15, Budget Paper No. 2, Chapter 2: The Economy, pp 2-1 – 2-2.

7.2 Electricity networks skill requirements

The Productivity Commission found that while publicly owned businesses recruit more apprentices and trainees, it is not clear that privately owned businesses engage in too little training. According to the Productivity Commission, data at the time of the review showed that private utilities such as SP AusNet, Citipower and Powercor, Jemena and ETSA Utilities all took on new apprentices, which were added to an existing number of apprentices and trainees already employed.¹⁹

Further, to support younger people in NSW, the Government has announced an initiative to promote apprenticeships on infrastructure projects arising from the new investment by the infrastructure fund Restart NSW. This initiative will include the Government considering commitments on apprenticeships in evaluation of tenders.

The Government seeks comment on the following:

- 1. How can all businesses be encouraged to invest appropriately in skills development, regardless of ownership?*

8 HOW CAN YOU PARTICIPATE?

This Discussion Paper has been developed by DPC as the first step of the consultation process for Rebuilding NSW. It provides an opportunity for the community and stakeholders to engage on specific issues or concerns for Rebuilding NSW and the proposed partial lease of NSW electricity networks.

Submissions are due by 19 September 2014 and can be made online at www.rebuilding.nsw.gov.au or by post to:

Rebuilding NSW
GPO Box 5341
Sydney NSW 2001

There will be further opportunities to provide comment on particular issues outlined in a series of expert reports to be released throughout September.

DPC will also be meeting with key stakeholder and community groups over the coming months and will prepare a Final Report to Government outlining the outcomes of the consultation process late in 2014.

If you would like further information on Rebuilding NSW or how you can participate please register your interest at www.rebuilding.nsw.gov.au.

¹⁹ Productivity Commission 2013, *Electricity Network Regulatory Frameworks*, Report No.62, Canberra, p 276.