

INQUIRY INTO GENTRADER TRANSACTIONS

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NEWCASTLE GREENS

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Gentrader Submission to NSW Upper House Inquiry

Thank you for the opportunity to express Newcastle Greens strong opposition to the Labor state government's Energy Reform Strategy.

Our understanding of the situation is based upon Unions NSW statement to members (Dec 2010). That is – “as of November 2010, (the Energy Reform Strategy) aims to sell the retail businesses of the State owned corporations, a number of development sites and the trading functions of the generation state owned corporations, known as Gentrader”.

As the Inquiry is well aware, there is little or no public documentation to specifically explain the government's actions and deliberations which have resulted in the present situation.

The following issues are of major concern to our membership:

1. Loss of Revenue to State:

Simply put, the assets that have been sold return \$750 million a year which pays for teachers, nurses and hospitals. (John Kaye MLC)

The NSW government has a responsibility to taxpayers to gain value for money when selling public assets. Selling assets (ie infrastructure) to private enterprise exposes taxpayers to

- threat of electricity tariff increases
- unreliability of services
- removes opportunity for a valuable income stream

- imposes cost on taxpayer in order to subsidise coal supply to power generators through loss of export price
- loss of opportunity/creation of barriers for fair competition, especially in renewable energy as two players now dominate the retail market
- threat to employment security
- underpricing the value of the assets
- unfairly mitigates and possibly totally negates the imposition of a carbon tax on coal fired electricity generation

According to Mr Mike Baird, Member for Manly and Shadow Treasurer, "valuations done by various market estimates, based on comparable transactions, put these assets at \$12-\$15 billion".

Newcastle Greens understands the state government has signed off on a sale price of \$5.3 billion – less than half of the value of the assets, and what Newcastle Greens sees as bad value for money.

It is public knowledge that the state government has committed a further \$1.3 - \$2billion to develop Cobbora coal mine and has set aside \$1 billion to subsidise the future of coal contracts. Once again, Newcastle Greens believe this is a realization of taxpayers receiving bad value for money.

In the absence of full disclosure of the coal contract between the Cobbora coal mine and the gentraders, the public have been denied the opportunity to evaluate the cost vs benefit of this transaction.

It is obvious that a long term supply agreement for coal, at say, 50% discount to the market price is not sustainable without the imposition of future public tax levies.

2. Legal responsibilities of state government:

It is more than reasonable for Newcastle Greens to be concerned that 8 out of 11 directors of the generation companies elected to resign on fiduciary grounds. (NH 16.12.10)

A full and transparent inquiry is justified to expose the motive explaining such action.

The Newcastle Herald report stated one director told The Herald "If this was such a great deal for the state, why wasn't the detail given to us? Where is the evidence? I don't think it exists".

Business Spectator (15.12.10) reported: "The sale which was below estimates that the state would fetch was heavily criticized by local media amid reports that some directors

on the boards of the generation companies up for sale quit in protest against the sell-off, which they considered too cheap".

"It would be their duty to come to that viewIt's quite understandable Origin chief executive officer Grant King told reporters, not disputing that the companies got bargains on what they paid for the rights to power from the state's Eraring and Delta power stations".

3. Cobbora Coal Mine – the elephant under the carpet

In 2009 ERM produced the Cobbora Coal Mine Preliminary Environmental Assessment for Macquarie Generation, Delta Electricity and Eraring Energy (State owned electricity assets, supplying around 90% of total energy demand in NSW) to ensure the supply of coal to the generators' coal fired power stations. Justification of the proposal was based on the opinion that coal supply to the domestic coal market is "less attractive to coal producers than (an) export option" and that the project provided the opportunity to secure "long term fuel supplies necessary to maintain affordable electricity supplies to NSW homes and businesses".

The unincorporated joint venture was the original proponent for the project and it was anticipated that the miner, once appointed, would take over that role.

In 2009 it was estimated that the Cobbora project would cost \$1.3 billion. It is now upgraded to cost more than \$2 billion (SMH 16.12.10) and be paid for by the proceeds from the gentrader deal.

Potential annual mining royalties from Cobbora are estimated to reach \$36.4 mill and continue at that level for the life of the mine (21 years).

Even though Newcastle Greens strongly opposes the development of new coal mines, the case for the Cobbora coal mine only makes sense if the State's power generators stay in state's hands OR that the project guarantees lower and reliable energy costs to NSW consumers.

The SMH (16.12.10) reported the Treasurer, Eric Roozendaal as stating the coal produced by the mine would be sold at a "reasonable price" to "prop up" the power generators' new owners. It is our understanding that the coal will be sold at around \$30-40 a tonne, as compared to export price of \$70 a tonne.

Mr Roozendaal has stated (NH 15.12.10) that the gentrader deal has "created a competitive market structure approved by the ACCC", but this may not be true.

The Nature Conservation Council has lodged a complaint with the ACCC (SMH Dec 22 2010 'Coal Mine subsidy will harm competition' Brian Robbins) that the proposal "breaches competition law because of the sizeable subsidy involved" and "to suspend

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any coal supply agreement that distorts energy markets by reducing the price of coal"(media release NCC 22.12.10).

Notwithstanding the non-costed environmental and social impacts another coal mine creates for present and future tax payers, the proposal undermines the growth of renewable sources of power generation industries.

The aforementioned power generators are already responsible for 60 million tones of CO2 each year – about 40% of NSW's green house gas emissions. A dangerous precedent has been created – Will the NSW government be in a position to offer a level economic playing field (ie similar running cost subsidy) to other power generators?

Importantly, the gentrader proposal undermines the effectiveness of any future carbon tax.

Mr Roozendaal is quoted as stating (SMH 16.12.10) "Our intention is not for the government to stay in that (coal) business, and once the business is developed, then to on-sell it".

Yet the main reason to establish the Cobbora mine, was to secure long term fuel supplies for state owned power generation. Now that power generation is in the hands of private ownership, why would the government consider and pay for the development of a coal mine?

In the absence of full disclosure of the coal contract between the Cobbora coal mine and the gentraders, the public have been denied the opportunity to evaluate the cost vs benefit of this transaction. It's fair to conclude that a long term agreement for coal at, say, 50% discount to market price is not sustainable without public tax levies.

Conclusion -

Newcastle Greens concludes that the gentrader deal has been manipulated in such a way that the taxpayer is now exposed to an obligation to subsidize the price of coal to the successful gentrader bidders.

This situation clearly disadvantages renewable power generation opportunities and NSW's obligations to reduce carbon emissions.

Yours faithfully,

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