

ELECTRICITY AND INFRASTRUCTURE INVESTMENT

Dispelling the Myths



ELECTRICITY REFORM AND THE NSW INFRASTRUCTURE CHALLENGE



MYTH:

NSW can afford to increase infrastructure investment, without selling assets.

FACTS:

- NSW has run out of options to pay for new infrastructure, and is already on a negative outlook for the AAA rating.
- This means the lease of the NSW electricity grid is the State's only option to substantially increase infrastructure investment (without the loss of the AAA, or boosting taxes).
- NSW has a \$30 billion backlog of urgent transport and other projects (NSW Treasury, 2014).
- Already, congestion in Sydney is as bad as Los Angeles (TomTom, 2014).
- Sydney's congestion will cost the NSW economy \$6 billion this year alone (BITRE, 2007).
- An average NSW driver will waste 185 hours in traffic this year (TomTom, 2014).
- This problem will get worse, not better, because NSW is growing by 2,000 people per week (NSW Planning and Environment, 2014).

MYTH:

There will be little money left for infrastructure, because network debts have to be repaid.

FACTS:

- The Government's plan will raise more than \$20 billion for infrastructure, comprised of:
 - Circa \$13 billion in net proceeds (sale price minus debt);
 - \$5 billion in interest from the allocation of proceeds to the Restart NSW fund; and
 - \$2 billion in reward payments from the Commonwealth under its Asset Recycling Initiative.

MYTH:

All the money will disappear into consolidated revenue, or Sydney-only projects.

FACTS:

- The Government has committed to invest each dollar from the lease into new infrastructure, across public transport, roads, water, hospitals, schools and other projects.
- Circa one third of the proceeds – \$6 billion – must be invested in regional infrastructure, outside of Sydney.
- This \$6 billion investment in the regions is a once in a generation opportunity to improve social infrastructure, to make roads safer, and to ensure that NSW's primary producers get their goods to market more quickly and cheaply.

MYTH:

Taxpayers are better off keeping businesses like the poles and wires, because they make a profit.

FACTS:

- A partial lease allows NSW immediate access to dividends that would otherwise take years to materialise – allowing immediate progress on new infrastructure.
- Investing the proceeds in infrastructure stimulates economic activity, and tax revenues for government.
- The 'profit' earned from inefficient public electricity networks is money taken out of the economy, that cannot support new jobs and economic growth.
- Last year, the Productivity Commission concluded that *"the rationale for government-ownership of electricity network businesses no longer holds"* (Productivity Commission, 2013).
- Recent transactions, such as the long term leases of ports Botany, Kembla and Newcastle have shown that infrastructure assets command a premium, beyond the value that government can achieve through dividends.

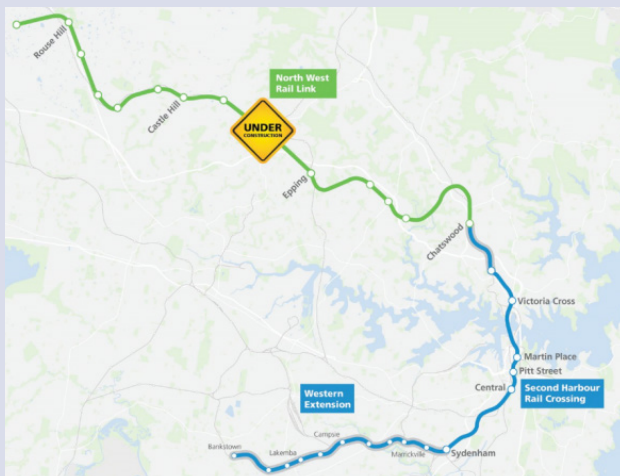


\$6 BILLION FOR REGIONAL NSW



SYDNEY RAPID TRANSIT

The lease of the electricity network will pay for the conversion of Sydney's 19th century railway into a fast, modern, turn-up-and-go service. This includes the second harbour rail crossing, which has been promised for decades and is the key to increased capacity across the rail network.



Source: NSW Government, 2014

SCHOOLS AND HOSPITALS BUILDING FUND

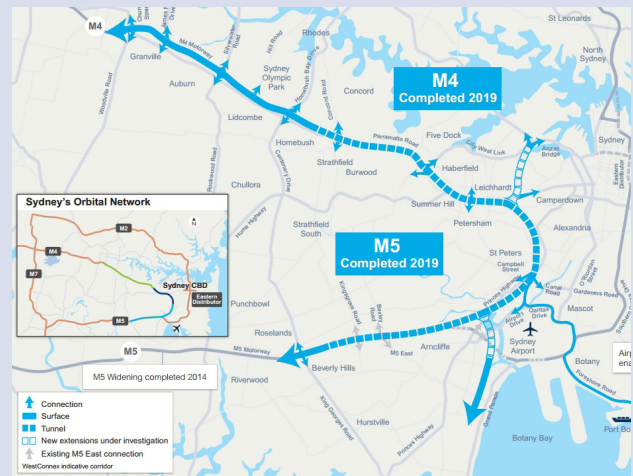
The lease will deliver new educational and public healthcare facilities, with an expected contribution of at least \$2 billion.

REGIONAL WATER FUND

The lease will deliver greater water security and quality in regional areas, with an expected contribution of at least \$1 billion.

SYDNEY ROADS RENEWAL

The planned lease has allowed NSW to plan with certainty for additional extensions of Sydney's motorway network, including connections to Sydney's northern beaches, the Sutherland Shire and inner west.



Source: NSW Government, 2014

SPORTS AND CULTURAL FUND

The lease will deliver new and upgraded sporting facilities and investment in cultural infrastructure, with an expected contribution of at least \$500 million.

REGIONAL ROADS FUND

The lease will deliver new roads and bridges in regional areas, eliminating the need for diversions, delays and backtracking, with an expected contribution of at least \$1 billion.

PRICE IMPACTS & CONSUMER PROTECTIONS

MYTH:

Prices will go up when the networks are privately operated.

FACTS:

- NSW electricity bills have risen because of public ownership.
- Electricity bills would actually fall by 12.4 per cent under private operation (Deloitte Access Economics, 2014).
- Public operation has pushed up average family electricity bills by \$580 per year, in just six years (IPART, 2013).
- In the past 15 years, NSW consumers have seen public network costs surge by 122 per cent, while Victorian consumers have seen network costs reduce by 18 per cent, in real terms, (Ernst & Young, 2014).
- In 1996, NSW consumers paid \$25 less in electricity network costs than the average Victorian consumer. Now, NSW consumers pay \$474 per year more.
- ACCC Chairman, Rod Sims recently stated "...in my view, NSW electricity prices would now be significantly lower had the NSW electricity network assets been privatised" (ACCC Regulatory Conference, 7 August 2014).

MYTH:

Consumers will be better protected if the electricity networks remain publicly operated.

FACTS:

- Consumer protections are exactly the same, irrespective of ownership.
- Network charges will still be set by the Australian Energy Regulator (AER), an independent, expert body within the ACCC.
- All NSW electricity companies operate under the National Electricity Customer Framework (NECF), irrespective of public or private ownership. This sees:
 - Guaranteed access to electricity, even with a poor payment history;
 - Strong legal protections for vulnerable consumers;
 - No disconnections for vulnerable consumers on a payment plan;
 - Homes with life support equipment cannot be disconnected, under any circumstance; and
 - Small businesses and household customers have significant price and quality guarantees, backed by law.

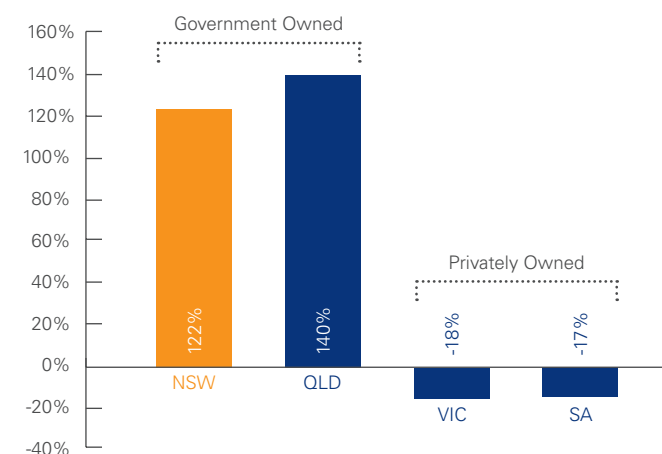
MYTH:

Reliability standards will fall under a lease.

FACTS:

- Electricity networks are among the most strictly regulated sectors in the economy.
- Minimum reliability standards are set by regulation, regardless of who operates the electricity network.
- Network reliability standards are strictly enforced through network licensing conditions, and are legally binding on network businesses no matter who operates them.
- Consumers in Victoria and South Australia have seen equal or better reliability outcomes than NSW, but at much lower cost. (Productivity Commission, 2013).

PER CENT CHANGE IN AVERAGE ANNUAL ELECTRICITY NETWORK COSTS, 1996-97 TO 2012-13
Source: Ernst & Young, 2014



NSW ELECTRICITY PRICE COMPONENT, 2007-08 TO 2013-14
Source: IPART, 2013

