

# Consultative Reference Committee – Call for Public Submissions and Terms of Reference

On 10 December 2007, the NSW Government announced changes to the electricity industry following the *Inquiry into Electricity Supply in New South Wales* undertaken by Professor Anthony Owen.

The Government announced it would:

- Lease existing electricity generators to private operators, while keeping them in public ownership;
- Retain the ‘poles and wires’ assets of the State-owned companies Energy Australia, Integral Energy and Country Energy in Government ownership, while their retail lists and functions would move to private operators; and
- Introduce number of safeguards to protect and create jobs, keep prices as low as possible and protect the environment.

## Role of the Committee

The Premier of NSW has established the Consultative Reference Committee to test the impacts of changes to the State’s electricity industry which the NSW Government announced last year.

In the formulation of its impact statement, the Committee will examine the following criteria:

1. The direct and indirect social usefulness of a public asset, service or utility;
2. The original purpose of the enterprise and whether that purpose remains valid, is being appropriately addressed through existing arrangements or could be satisfied by alternative arrangements;
3. Where the original purpose (as discussed above) has become redundant, the other social, redistributive or regulatory roles that have evolved must be taken into account;
4. The retention value of the enterprise measured against its sale value. Any calculation of retention value should incorporate both commercial and non-commercial functions;
5. The current structure of the market place (i.e. monopoly, oligopoly or competitive) and the public sector’s role as a competitor and/or regulator in that market;
6. The impact on specific groups or regional areas especially those groups or areas that are already disadvantaged. The assessment should include all factors including the real costs of compensation and/or support that will be needed if the role of the public sector were to change;
7. The impact on employment, skills, training and conditions and the protection of the existing workforce and/or the reform of industrial relations practices in any new enterprise or project;
8. The existing competing demands on the NSW public sector and existing budgetary constraints and/or the alternative sources of funds for public sector investment;
9. The current environmental impact and the need to continue to enhance environmental protection;
10. The administrative economies of scale and coordination that is facilitated by public ownership and control;

11. Appropriate weighting of long-term as well as short to medium term considerations;  
and
12. Where the money is going (i.e. ensuring that the proceeds of the disposal of assets are responsibly directed to priority public capital needs).

It is noted that the Owen Inquiry was based on an extensive public consultation process including written submissions. This information will be drawn upon by the Committee. The Committee will also call for public submissions which address the above 12 criteria.

## **Membership of the Committee**

The Committee will consist of:

- Hon Barrie Unsworth (Chair)
- Rev Harry Herbert, Executive Director of Uniting Care NSW/ACT
- Jeff Angel, Total Environment Centre
- Matthew Thistlethwaite, Unions NSW
- Ben Kruse, United Services Union
- Steve Turner, Public Sector Association
- Michael Daley, Member for Maroubra
- Steve Whan, Member for Monaro
- Robyn Kruk, Director-General, Department of Premier and Cabinet
- David Richmond, Coordinator General

## **Call for Public Submissions**

Interested parties are invited to make a written submission to the Consultative Reference Committee **by Friday, 8 February**. Submissions should be evidence-based and specifically address the above 12 criteria. All submissions made to the Owen Inquiry will automatically be considered by the Committee.

### **Your submissions should be forward in hard copy to:**

Ms Zoe de Saram  
NSW Department of Premier and Cabinet  
Level 39  
Governor Macquarie Tower  
1 Farrer Place  
SYDNEY NSW 2000

## **Reporting Timeframe**

The Committee's formulation of its impact statement is to be completed by 7 March 2008 and submitted to the Government.

# **Owen Inquiry Into Electricity Supply In NSW**

## **NSW Government's response**

(released 10/12/07)

- [Owen Inquiry - Jobs Guarantee](#)
- [Pricing and Consumer Protections](#)
- [Energy Efficiency Strategy](#)
- [Media Release, Clean Energy - Clean Coal, Renewables](#)
- [Energy savings to fund Infrastructure](#)

## **NSW Government acts to secure State's energy supply**

10 December 2007

Premier Morris Iemma today announced the future energy needs of the State's businesses and families will be **secured at no cost to taxpayers** in response to the Owen Inquiry into electricity supply in NSW.

Mr Iemma said the government would accept Professor Owen's key recommendations **while still keeping electricity assets in public ownership**.

The decision is expected to **save NSW taxpayers up to \$15 billion** over the next 10 to 15 years, at the same time as ensuring electricity supply and reliability keeps pace with growing demand.

Mr Iemma said that in order to provide for new energy generation by the private sector, the government would **lease existing electricity generators to private operators**, while keeping them in public ownership.

The State-owned companies Energy Australia, Integral Energy and Country Energy, will keep their 'poles and wires' assets in Government ownership, fulfilling their important distribution function, while their retail lists and functions will move to private operators.

"Securing the future of our energy supplies is the biggest decision this Government will take and our decision will benefit the NSW economy, State Budget and environment for the next 20 years and beyond," Mr Iemma said.

"Energy is the lifeblood of our economy and communities and that's why we need to act swiftly to ensure that NSW is prepared to add additional baseload generation capacity by 2013-14.

"We have reached a solution that secures the State's energy supplies at no cost to taxpayers, while keeping electricity assets in public ownership.

"It's a win-win scenario," Mr Iemma said.

"Creating the conditions for the private sector to make the investment in baseload will save NSW taxpayers up to \$15 billion – unlocking funds for roads, trains, hospitals, schools and other essential infrastructure.

"It does not make sense for NSW taxpayers to pay for the additional electricity investment, when the private sector can do it at no cost to the taxpayer."

Since the release of the Owen Report, the Government has undertaken extensive analysis and consultation with key stakeholders including unions on a range of issues including:

- Protecting household consumers from volatility in power prices as a result of price deregulation;
- Ensuring ongoing job security for all current state energy workers;
- Protecting the environment in line with securing our future energy supply; and
- Progressing development applications for potential power station sites.

As a result the Government will not accept Professor Owen's recommendation to remove domestic price regulation in 2010.

**Consumers will be protected with regulated prices** by the IPART for households and small businesses for a further three years - to 2013, or until the Government is satisfied there is effective competition to keep downward pressure on retail electricity prices.

Mr Iemma said the Government would also continue its strong regulatory role to ensure the range of consumer protection measures, including social programs for pensioners and hardship measures are maintained.

"It's also important that we secure jobs in this growing sector, and we've been able to do that with a **guarantee of job security for public sector retail and generation electricity workers across the State**," Mr Iemma said.

"Advice from the private sector indicates the Government should do everything we can to retain the valued and highly-skilled workforce."

The Government will establish a Consultative Reference Group consistent with the ALP Platform to test the impact of the reforms.

Treasurer Michael Costa said the exact structure of the sale of the retail licences and lease of the generators was still to be determined.

"Today's announcement demonstrates the Iemma Government's commitment to economic reform where it's in the best interests of the people of NSW," Mr Costa said.

"We'll be engaging the experts in these sorts of transactions in order to maximise the benefits to consumers, taxpayers, and the NSW electricity sector.

"Options include trade sales of retail, leases of generation and an Initial Public Offering (IPO), or a combination, and will be determined after further consultation, including with regulators such as the ACCC.

"But the fundamentals are clear – it simply does not make sense for NSW taxpayers to pay up to \$15 billion for electricity investment when the private sector can do it at no cost to the taxpayer."

After consultation with key environmental groups, the Government is also today announcing a new Energy Efficiency Strategy, which includes a range of measures to support NSW families and businesses to reduce their energy consumption.

The Government will now ensure development applications are prepared for all prospective sites to provide for future baseload power station developments.

Today's announcement is about shoring up the required new investment in baseload generation for NSW from the private sector. The details of any plans for proceeds will now take further time to develop.

However priority areas for any opportunity for new investment will be:

- Urban transport initiatives including Euro-style metro technology and the extension of the M4;
- Rural water and sewerage infrastructure upgrades;
- Rural and regional road transport infrastructure;
- Energy efficiency strategy announced; and
- Supporting development of clean energy including clean coal and renewables.

## **The story so far: Why is the Government reforming the power industry?**

### **NSW's energy needs**

- Energy consumption in NSW is forecast to increase to 91,000 Gigawatt-hours (GWh) a year by 2013-14, an increase of 10,500GWh from 2006-07.
- NSW's innovative energy efficiency measures such as BASIX, Energy Savings Action Plans and the Greenhouse Gas Abatement scheme, are currently playing and will continue to play, a significant role in reducing energy consumption.
- Renewable energy and other small-scale generation are forecast to provide over 1,500GWh of the 10,500GWh needed.
- The Owen Inquiry found the remaining 9,000GWh required annually by 2013-14 is likely to be met by gas- or coal-fired generation. Other technologies such as solar or geothermal are expected to contribute significantly in the longer term.

### **The cost to NSW taxpayers**

- The impact on NSW taxpayers of the State-owned generation corporations building the required additional baseload could be up to \$15 billion over the next 10 to 15 years:
  - \$7 to \$8 billion for new generation;
  - \$2 to \$3 billion to maintain the viability of retail businesses; and
  - \$3 to \$4 billion to retrofit existing power stations with carbon reduction technologies.
- The Government is already committed to a record \$110 billion investment in infrastructure over the next decade.
- The ratings agencies have indicated there is little room to further increase infrastructure spending without jeopardising our triple A credit rating.

### **Conditions for private sector investment**

- The private sector will invest in baseload generation in NSW if certain conditions are met – a key condition is access to a stable and adequate revenue stream to underwrite new investment in generation.

- This is best achieved through ‘vertical integration’ of retail and generation – where the company that bills the customer is the same company that generates the electricity – or by operating a portfolio of power stations.
- Neither of these models is possible in NSW, when the Government continues to own the majority of the State’s retail businesses and power stations.

## **Report of the Owen Inquiry into Electricity Supply in NSW**

(released 11/9/07)

### **Key Findings And Recommendations**

- [OIR Summary Cover](#)
- [OIR Summary](#)

### **Full Report**

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- [OIR expert report 1 Connell Wagner](#)
- [OIR expert report 2 Wood Mackenzie](#)
- [OIR expert report 3 Morgan Stanley](#)
- [OIR Glossary](#)

### **Terms Of Reference**

New South Wales has had surplus capacity in electricity generation over the last 20 years. Economic and population growth has progressively reduced the extent of that surplus capacity.

A [summary background paper](#) on the future of electricity generation in NSW can be viewed.

In 1998 New South Wales joined Victoria in establishing the National Electricity Market (NEM). The NEM now includes all Australian States and Territories (apart from the Northern Territory and Western Australia). The NEM allows electricity produced in one State to be sent across the transmission network to other States that need generation capacity. This means that NSW generators can trade electricity across the NEM.

This reduction in excess capacity due to increasing demand for electricity and economic growth raises the question as to when the next major investment in baseload generation should occur in New South Wales.

Generation investment in the national market is driven by load growth and location, access to transmission sites, fuel and other resources.

The National Electricity Market Management Company (NEMMCO) in its annual assessment of the NEM has indicated that New South Wales needs future investment in generation capacity to maintain the State's electricity supply.

A copy of the NEMMCO 2006 Statement of Opportunities Executive Briefing is available from the following link [http://www.nemmco.com.au/nemgeneral/soo\\_2006.htm](http://www.nemmco.com.au/nemgeneral/soo_2006.htm). For more information on the National Electricity Market see the brochure prepared by NEMMCO <http://www.nemmco.com.au/nemgeneral/000-0187.pdf>

In response the NSW Government has acted to secure the medium term peak supply. Both TRUenergy and Delta Electricity are constructing gas-fired peaking power stations.

New South Wales now needs to focus on securing future baseload supply of electricity. Consequently, an Inquiry, undertaken by [Anthony Owen](#), Professor of Energy Economics at Curtin University of Technology, has been established with the following terms of reference.

1. Review the need and timing for new baseload generation that maintains both security of supply and competitively priced electricity.
2. Examine the baseload options available to efficiently meet any emerging generation needs.
3. Review the timing and feasibility of technologies and/or measures available both nationally and internationally that reduce greenhouse gas emissions.
4. Determine the conditions needed to ensure investment in any emerging generation, consistent with maintaining the NSW AAA Credit Rating.

In establishing this Inquiry the Government is seeking advice on the actions required to ensure timely investment in generation capacity that addresses greenhouse gas emissions while retaining the State's fiscal position.

The Report to the NSW Government is due the end of August 2007.

[Owen Inquiry Update No 1 - June 2007](#)

## **Submissions**

The Inquiry has received public submissions. The period for making submissions closed Friday 29 June 2007.