

Uncertainty the villain, not the power sales process

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The parliamentary impasse between New South Wales Premier Kristina Keneally and the opposition over whether the electricity industry sale should be examined reignites an issue the Premier believed she had buried. Whatever else it may show, the NSW sale once again demonstrates the wisdom of the Kennett government in selling Victoria's electricity assets in the 1990s.

In the NSW sales, Origin Energy has bought the 2800-gigawatt coal-powered Eraring Power Station, plus a hydro scheme at Shoalhaven with a capacity of 240GW. TRUenergy, a subsidiary of China Light and Power, has bought 2400GW from the Delta Energy coal-powered portfolio. Origin states the price it paid was equivalent to \$313 a kilowatt; TRU may have paid a little less.

The NSW "gentrader" sales leave the government running the power stations and guaranteeing their output to the buyers. The buyers are responsible for fuel contracts.

In effect, it is equivalent to a sale of the power stations but without the private-sector owners having the ability to drive down labour costs.

In Victoria, the coal-based generators, which had a much smaller electricity supply capacity, sold for \$9 billion a dozen years ago. The Victorian private-sector owners reduced staffing to only a quarter of the levels that prevailed when the power stations were run by their government owners. Over-staffing in the NSW system is believed to be less than was the case at the Victorian stations but still, applied to all coal-based generators, this maintenance of over-staffing may mean a sacrifice of \$1 billion in sales value.

Much attention has been focused on the resignations of board members of the state-owned businesses that have been sold. Those directors clearly considered the state was getting too little for the assets.

In this respect, the sale of the output of two of the three generator businesses places a total value of \$3.5 billion on all the NSW state-owned coal generators, which account for the great bulk of the state's electricity supply.

The cost of replacing the NSW generator assets, which are relatively old but in good condition, is \$12 billion. This means the state has sacrificed more than \$8 billion in wealth.

The real issue about the loss of value to the people of NSW is not, however, a defective sales process. The coal-based electricity generators have been devalued from their underlying \$12 billion worth as a result of state and federal carbon emission policies.

Contrary to the statements of those directors of state-owned businesses who resigned, the low prices were not primarily due to an incompetent sales procedure. Despite the complex nature of the "gentrader" contracts, the prices were achieved in a competitive auction. The value of the assets was discounted mainly to offset the risk of a carbon tax or similar measures that would sharply reduce the value of coal-powered stations.

It is likely that a much higher price would have been achieved some years ago. But that was before the calls for a carbon tax or cap-and-trade became increasingly shrill. The fact that a higher price was previously achievable simply means that the underlying cost of the risk of a tax would have been incurred by the buyers and not, as is now the case, by the sellers.

Aside from anything else, the NSW sales outcome shows that investment in power stations has become extremely risky as a result of government policies and threats surrounding carbon taxes. Power stations in Australia can now only be sold at a steep discount on their underlying value and costs. And the introduction of a carbon tax would offer no greater certainty on which new investment decisions can be taken.

The \$8 billion loss amounts to more than \$1000 for every man, woman and child in NSW, overwhelmingly as a result of a prospective carbon tax. The NSW government has been stridently in favour of additional emission-control measures so it cannot hang the costs of this on the Commonwealth.

Moreover, the \$1000 hole in the wealth of every person in NSW that the sale exposes represents only a down payment. Further losses and costs will be incurred in terms of higher electricity prices if present carbon-tax and emission-reduction policies are maintained.