



LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

Public Accounts Committee

**Inquiry into the Structural
Separation of the Power and
Water Corporation**

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Chair's Preface

This is the first report of the Public Accounts Committee under its new powers to consider any matter under the Northern Territory's administration. It is also probably the quickest inquiry by a Committee of the Assembly to date, taking just six weeks.

During that time, the Committee was able to call for submissions from Territorians and key stakeholders and hear from agencies promoting and implementing the changes, and industry, union and academic witnesses.

While the Assembly's legislative schedule did not allow time for an exhaustive exploration of the issues raised by the structural separation of the Power and Water Corporation, it did provide opportunity for stakeholders to raise their views and concerns and for the Members of the Committee to question the reasons for the proposal.

In this regard, I would like to acknowledge the contribution of all those who made submissions and appeared before the Committee. The Committee also received responses to questions on notice despite the tight timeframe for the Committee's inquiry.

Government and industry witnesses expressed the clear view that the proposed structural separation would remove barriers to competition and improve the efficiency of PWC businesses.

There were concerns raised with the Committee regarding the potential for privatisation and the adequacy of the analysis of costs and benefits of the proposal. The hearings allowed opportunity to explore these issues, and the answers to questions raised are set out within this report and the evidence published by the Committee. This evidence shows that concerns that the Bills providing for the structural separation do not allow for privatisation were not well founded. It also outlines the rationale for the proposals in a way that the majority of the Committee found compelling.

There were dissenting views on the Committee's recommendation that the Assembly pass the Bills to implement the structural separation. The strength of this process has been that it has put on the public record the reasons for the proposal and the dissenting views, which allows the assessment of these views on their merits.

I would like to thank those who made submissions to and appeared before the Committee to assist it with its inquiry. I also acknowledge the work of my fellow Committee Members, who have worked hard at analysing a large amount of material in a short period of time and, regardless of some differing views, have worked together to examine this important issue.



Lia Finocchiaro MLA
Chair

Committee Members

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	Standing:	Public Accounts; Estimates & Government Owned Corporations; Legal and Constitutional Affairs; Subordinate Legislation & Publications.
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On 3 April 2014 Ms Larisa Lee, and Mr Francis Kurrupuwu, were discharged from the Committee and replaced by Mr Gary Higgins on 3 April 2014 and the Mr Nathan Barrett on 6 May 2014. On 19 April 2014 Ms Natasha Fyles was discharged from the Committee and replaced by Mr Kon Vatskalis.		

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Acknowledgments

The Committee acknowledges the individuals and organisations that provided written submissions or oral evidence and attended public hearings.

Terms of Reference

On 26 March 2014, the Public Accounts Committee resolved:

That the Public Accounts Committee inquire into and report on the Government's proposals to split up the Power and Water Corporation into three separate entities, including:

- a) The provisions of the Power and Water Corporation Legislation Amendment Bill 2014 serial 63, the Power Generation Corporation Bill 2014 serial 64, and the Power Retail Corporation Bill 2014 serial 65;
- b) The fiscal and economic impact of the Power and Water Corporation being split into three separate entities; and
- c) Any other matters in relation to the proposed split up of the Power and Water Corporation.

Recommendations

Recommendation 1

That the Assembly pass the Power and Water Corporation Legislation Amendment Bill 2014 serial 63, the Power Generation Corporation Bill 2014 serial 64, and the Power Retail Corporation Bill 2014 serial 65.

1 Introduction

- 1.1 On 27 September 2013 the Treasurer announced the Government's decision to restructure the Power and Water Corporation to separate its monopoly and competitive businesses into stand-alone government owned corporations with separate boards from July 2014.¹ The decision to establish two new Corporations for electricity retail and generation was announced on 13 December 2013² and Bills to effect this change were introduced into the Legislative Assembly on 13 February 2013.
- 1.2 The Public Accounts Committee resolved on 26 March 2014 to inquire into the splitting up of the Power and Water Corporation following an amendment to the Legislative Assembly's Standing Orders on 19 April 2014 to enable the Committee to examine any matters within the executive authority of ministers of the Territory.
- 1.3 As the resumption of debate on the Bills was to be before the Assembly on 6 May 2014, the Committee held an expedited inquiry process. It called for submissions by 24 April and held public hearings on 28 April. Submissions and witnesses are listed at Appendices 1 and 2.
- 1.4 In answer to the question, "why structural separation?", Treasury's information paper says:

It is essential to facilitating competition. Separation is the most effective way to give competitors confidence that they will succeed (or fail) on their own merits. In addition, separation also provides for more effective and accountable management of PWC's businesses, and improves incentives for the businesses to be operated efficiently and sustainably.³
- 1.5 Although the timeframe for the Committee's inquiry did not allow it to conduct a thorough analysis of all the issues involved, it did allow key stakeholders opportunity to set out their views on the proposal and for the Committee to question the key agencies promoting and implementing the changes. This information is available in the Committee's published submissions and transcripts.
- 1.6 It was clear from the evidence that the proposed reforms follow similar changes previously made in all other Australian jurisdictions and will increase the potential for competition in the electricity market.
- 1.7 There were two common concerns raised with the Committee. The first was that the changes would allow, or are a precursor to, privatisation. The second was that there was no cost-benefit analysis demonstrating the effectiveness of the proposed change.

¹ Media Release: <http://newsroom.nt.gov.au/index.cfm?fuseaction=viewRelease&id=11487&d=5>

² Media Release: <http://newsroom.nt.gov.au/index.cfm?fuseaction=viewRelease&id=11890&d=5>

³ Department of Treasury and Finance, *Northern Territory Electricity Market Reform: Information Paper*, Northern Territory Government, Darwin, February 2014, p.

1.8 These two issues, and other issues raised in evidence, are discussed in the following chapters.

2 The Potential for Privatisation

- 2.1 The Committee found no evidence that the proposed changes were intended to allow for, or have the effect of allowing, privatisation of all or part of the Power and Water Corporation.
- 2.2 The Treasurer's announcements of the changes stated that they were not privatisation and this was affirmed by statements in the Assembly.
- 2.3 Nevertheless, concerns were raised that proposed Part 5A to the *Government Owned Corporations Act* contained in the Power and Water Corporation Legislation Amendment Bill 2014 had the effect of allowing PWC, or parts of PWC, to be privatised. Concerns were also raised that, whether or not the current legislation allowed for privatisation, it was a significant step towards preparing the publicly owned electricity assets for privatisation.
- 2.4 These two concerns are examined below.

Does Proposed Part 5A to the Government Owned Corporations Act allow privatisation?

- 2.5 The Electrical Trades Union stated the Bills before the Assembly allowed privatisation, saying:

We, at the ETU, have long held grave concerns this reform process is simply a prelude to privatisation and, unfortunately, as the draft bills are currently before the House it would seem these fears have been well-founded. As they stand they clearly allow, in our submission, for partial or full privatisation of public assets via part 5A of the PWC Legislation Amendment Bill that is currently before the House.⁴

- 2.6 The Treasurer's second reading speech says:

changes are also being made to the *Government Owned Corporation Act* to provide an appropriate mechanism to transfer the assets, liabilities, contractual rights and obligations of the power retail and the power generation business of the existing Power and Water Corporation to the newly established corporations.

This is being achieved with the inclusion of a new part in the act that sets out a regime for making regulations to transfer businesses from one government-owned corporation to another.

- 2.7 Proposed Part 5A allows for regulations to be made:

for the purpose of effecting the transfer of all or part of the business of a Government owned corporation to a relevant entity.

- 2.8 In the Part:

relevant entity means any of the following:

- (a) a Government owned corporation;

⁴ Committee Hansard, Mr Lance McCallum: National Policy Officer, Electrical Trades Union of Australia, Public Hearing, 28 April 2014, p. 104

- (b) a subsidiary;
- (c) a statutory corporation;
- (d) a corporation (as defined in the Corporations Act 2001), or other body corporate, that is owned by the Territory;
- (e) the Territory.

2.9 The Committee notes that all the meanings of “relevant entity” under the Part, to which business of a Government owned corporation can be transferred, is an entity that is in public ownership.

2.10 At the hearing, Treasury explained that the Bill allows for the transfer to a range of Government owned entities as it is generic legislation and there was no intention to allow for the transfer to a private owner.⁵

2.11 As there was no apparent provision in proposed Part 5A allowing for the privatisation of assets, the Committee sought clarification from the Electrical Trades Union of the basis of its contrary view:

We are basing it on advice we have received. There might be a fundamental disagreement as to statutory interpretation here, but we believe it does provide for partial or full privatisation and if the government is saying - I understand they say that is the mechanism by which they want to effect this reform, well there should be a sunset clause that says those amendments cease to exist as soon as the current reform is over.⁶

...

Mr HIGGINS: If I can go back to the issue with the section that talks about privatisation, a question was asked this morning where it is going from one government-owned corporation to another - the question was asked of Treasury. Treasury said no, it is only when you go from one corporation to another. You said you have advice that it is not restricted to that. Can we get a copy of that advice?

Mr McCALLUM: Yes.

Mr HIGGINS: I presume that is legal advice?

Mr McCALLUM: Yes, we can get you something.⁷

2.12 At the time of the adoption of this report, the Electrical Trades Union had not provided the advice to the Committee.

2.13 In a further answer provided to the Committee explaining the limits on the ability to privatise PWC assets Appendix C, the Under Treasurer noted that under s 38 of the Government Owned Corporations Act a Government owned corporation cannot dispose of capital or financial investments above a threshold without the approval of the shareholding Minister. While the question of whether significant assets or business could be sold without further legislative amendment is a question that could only be answered definitely in the context of a define sale:

In practice, DTF considers it extremely unlikely that a sale of a significant asset or business could be effected without legislative amendment.

⁵ Committee Hansard, Ms Jodie Ryan: Under Treasurer, Department of Treasury and Finance, Public Hearing, 28 April 2014, p. 36

⁶ Committee Hansard, Mr Lance McCallum: National Policy Officer, Electrical Trades Union of Australia, p.105

⁷ Committee Hansard, Mr Lance McCallum: National Policy Officer, Electrical Trades Union of Australia, p. 106

Amendments would be necessary, among other things, to confirm to the purchaser that the Minister has the power to sell the assets or business; to deal with any residual assets or liabilities and, if relevant, the winding up of any government entity holding the business; to deal with taxation matters, including the liability for transfer duties; to deal with employment transfers as required; and to deal with any licensing requirements. Most of these matters would be a pre-condition for any buyer.⁸

- 2.14 The Committee concludes that the Bills do not provide for the transfer of assets to a private entity and, under both existing legislation and the Bills, there is no real prospect of significant Power and Water Corporation assets being privatised unless the Assembly passes new legislation allowing so.

Are the reforms a precursor to privatisation?

- 2.15 Concerns raised by the NT Council of Social Services reflect those raised by a number of organisations:

NTCOSS is also concerned that, even if not in the immediate future, these plans by the Government could eventually lead to privatisation.⁹

- 2.16 It is the case that the structural separation of PWC would make it easier to privatise parts of PWC in future, but that is not the purpose of the current reforms.

- 2.17 As noted above, the Committee has not found any evidence of plans to privatise PWC and the Treasurer has indicated to the Assembly that the Government would not privatise Power and Water without a mandate:

We are on the record of saying we are not interested in privatising any Power and Water Corporation assets this term. We would not do so without a mandate of the people, and we are not seeking such a mandate.¹⁰

- 2.18 NTCOSS has sought a guarantee from the Government to the people of the Northern Territory that it will not sell off any profit making portions of the PWC.¹¹ The Electrical Trades Union has asked that a referendum or similar requirement be imposed before PWC can be privatised.¹²

- 2.19 The Committee notes that the costs and benefits of privatisation are highly contested and considers that rigorous analysis and public debate should occur before such a move was implemented.

- 2.20 However, the Committee considers that any proposal to privatise should be assessed on its merits and does not support the imposition of a mechanism or undertaking intended to bind future Assemblies.

- 2.21 The Committee does consider that privatisation of PWC should require specific enabling legislation to be passed in the Legislative Assembly before such a

⁸ Ryan, letter dated 2 May 2014.

⁹ Submission No 3, Northern Territory Council of Social Services, 24 April 2014, p 11

¹⁰ Hon David Tollner, Treasurer, Hansard, 3 December 2013

¹¹ Submission No 3, Northern Territory Council of Social Services, 24 April 2014, p 11

¹² Committee Hansard, Mr Lance McCallum: National Policy Officer, Electrical Trades Union of Australia, p. 106

change could be made. As noted above, the Committee understand this to be the case under the proposed legislation.

3 Adequacy of Analysis

3.1 There are two broad reasons given for the proposed structural separation:

1. It is essential to facilitating competition; and
2. it provides for more effective and accountable management of PWC's businesses, and improves incentives for the businesses to be operated efficiently and sustainably.

3.2 The vertical integration of the Power and Water Corporation, being the established generator and retailing in the Territory and also holding the monopoly elements of the electricity market is a real impediment to the development of competition. The disaggregation of the generation and retail businesses should also provide greater accountability for each separate business, give greater focus to the boards and improve incentives for efficient and sustainable operation.

3.3 As was stated by Mr Tregilgas:

Structural separation provides the instruments essential for identifying and rooting out inefficiencies:

- by putting more focussed Boards and management teams into place,
- by making the finances of the power businesses truly transparent, so enabling greater accountability for corporate performance and a robust benchmarking of corporate costs, and
- by turning up the blowtorch on costs in ways possible only through effective competition.

In this way, we expect the actual costs of structural separation to be recovered by the new corporations not from their customers but by the improved efficiency and operations arising from the focussed governance, the financial transparency and the more effective competitive pressures only made possible as a result of structural separation.¹³

3.4 The Under Treasurer set out the history of the proposals to the Committee:

Since 2001 we have tried a range of reforms, administrative reforms of the business, to try and attempt to improve accountability, transparency and efficiency. That has included operational separation of the component businesses, accounting and financial reporting by business line and the introduction of a ring fencing code to ensure that Power and Water did not discriminate between competing businesses and its own affiliates.

Despite these measures Power and Water Corporation's integrated legal structure has not always translated into clear benefits for Territory consumers. The integrated structure of Power and Water dilutes incentives for it to operate as efficiently as possible, does not result in transparent financial management, and it serves as a deterrent to competition in the electricity market. Fourteen years after the introduction of these market and regulatory arrangements, the Territory remains the only jurisdiction in

¹³ Committee Hansard, Mr Alan Tregilgas: Executive Director, New Corporations Unit, Public Hearing, 28 April 2014, p. 4

Australia where there is no competition in the electricity supply chain other than the small retail share that has been gained by QEnergy.

Power and Water's financial position over that period has also been deteriorating. In 2009, in response to concerns about financial sustainability, the Reeves review was commissioned. The report from the Reeves review recommended significant increases in utilities tariffs to ensure Power and Water could achieve financial sustainability. However, Power and Water continues to perform below industry benchmarks and remains heavily reliant on taxpayer funding and borrowing. As part of the 2012 mini-budget this government started a program to improve the efficiency of Power and Water Corporation. Over the year following the mini-budget we considered a range of options in the bureaucracy and put them to government to help Power and Water achieve commercial sustainability and to address our ability to attract competition into the electricity market. The outcome of this consideration, and on looking at the options, was that the government approved a broad-ranging utilities market reform program in September 2013.

The reforms aim to bring the Territory's utility provider and electricity market structure in line with the rest of the country and the reform program consisted of two interrelated work streams.¹⁴

3.5 In detailing the purpose of the reforms, the Under Treasurer said:

In regard to structural separation, there are two distinct problems the separation of the monopoly and contestable functions seeks to address. Firstly, the operation of a vertically and horizontally integrated entity has proven to be administratively complex and detrimental to the financial performance of PWC. Although there are potential economies of scope and scale with an integrated ownership model, the historical financial performance of Power and Water suggests these economies have been more than offset by the additional complexity that comes from integration.

Secondly, as the Power and Water authority operates across both monopoly and contestable parts of the electricity market there is scope to engage in anti-competitive behaviour. While we have no evidence such behaviour has happened, it does provide for a perception that it could happen and has prevented competitors from coming into the market.

Structural separation involves both legal and governance separation which will address many of the issues that led to the failure of our previous reforms. Legal separation involves establishment of separate corporations, separate financial information, assets and employees, and governance separation involves each corporation being subjected to separate boards directions as well as operational separation of policies, processes and systems.

The result of that is we have complete financial transparency from an owner/shareholder perspective and it ensures greater exposure to the various lines of business to external reporting requirements, external audit requirements. It also requires the formalisation of all contractual arrangements between the separated lines of business, and it is this level of transparency in separation that PWC, to date, has not been able to achieve. The separation of monopoly and contestable functions also allows the boards of each of the three GOCs to exert an increased degree of specialisation in their particular areas. This should also lead to productivity and efficiency gains over time.

¹⁴ Committee Hansard, Ms Jodie Ryan: Under Treasurer, Department of Treasury and Finance, Public Hearing, 28 April 2014, p. 23

Given to date accounting separation has not been achieved by Power and Water, legal separation alone would still see a single board faced with multiple competing priorities. It was considered that structural separation was the best option to achieve what we wanted - financial transparency - and what the consumer wants, which is efficiency. It also increases the prospects for competition in the Territory's electricity generation and retail markets.

One of the consequences of the existing arrangements we have is all Territory households – taxpayers, not necessarily the users directly of electricity - are bearing the costs of an inefficient utility sector. That is through the need for government to be the primary funder of the utility's infrastructure and services and diverting resources away from other core government responsibilities such as education, health and police. Further, having access to efficient utility services is essential input for industry and industries will not come to the Territory and develop in the Territory unless they have access to the most efficient electricity services.

Although we remain a small market - that has been raised this morning - compared to other jurisdictions there are now technology improvements that mean economies of scale are no longer the only justification for retaining a vertically integrated system. There is also the fact a degree of investment uncertainty continues for new competitors looking to establish if they think there is one entity and it can act anti-competitively. Therefore, our view is that regulatory and structural reform in the utilities sector is in the longer-term economic interests of the Territory.¹⁵

3.6 The Chairman of PWC outlined how structural separation would assist internal financial accountability:

I think I can safely say that one of the biggest issues that we have had with the Power and Water Corporation is understanding the costs and revenues by location and line of business. Now we are a very complicated business. It is really how many functions by the number of towns that is really the number of businesses that we have got so it is a complicated messy business. Nevertheless you would think that we have got these functions of water, sewerage, electricity and there are bits of generation, networks, system control and these sorts of things. These are all important functions all of which cost a lot of money and you would think that we would be able to instantly press button A and produce costs and revenues that you can rely on for those lines of business. Now we cannot - and we are getting pretty close to getting there - even now with the exercise that I have got on the go at the moment, we have not got that sort of information. Now this has been going on for many, many years. This sort of information has not been available and this lack of transparency is not good for any of us. It is not good for us, it is not good for the public, people need to know what the costs are by line of business and you also really need to know by location so you can understand it.

Now the structural separation - this is one of the reasons why I have been quite keen to do it as it forces that to occur. Now it sure does not do everything because quite a lot of the costs will still be left within what we call the rump, the Power and Water Corporation which is us. Nevertheless the key costs of generation - generation is the main one, retail is sort of relatively much, much smaller. It forces that separation of those costs and that is a good thing. Now if you do not have the formal processes - it is like some of the other stuff we have seen around where things are – 'Yes we

¹⁵ Committee Hansard, Ms Jodie Ryan: Under Treasurer, Department of Treasury and Finance, Public Hearing, 28 April 2014, pp. 23 - 5

are going to do it, we will do it' but it does not actually happen. This formal process forces that separation which produces the transparency. Now the competition side, I am going to stay away from that, but certainly that transparency which allows accountability and that is good for everybody, so that is why I like it.

3.7 The Chairman rated these benefits as worthwhile independent of any completion effects:

Mr WOOD: Regardless of competition, will it make you a better corporation?

Mr CLARKE: Yes, it will.¹⁶

3.8 There is a broad consensus that competition is an effective driver of efficiency. However, wielding competition as a policy tool requires a sufficient understanding of the market and its incentives. This is reflected in this exchange with Professor Quiggin:

Mr BARRETT: In regard to the [national electricity] market characteristics you spoke about earlier, you said one of the failings of this whole process has been policy makers failing to understand certain aspects and characteristics of this market as opposed to a normal market structure. What are the characteristics you speak of and what is it we are failing to understand?

Professor QUIGGIN: First, the idea of separating generation and retail. This largely stemmed from a misperception that the wholesale - the distributor was the natural retailer. Under the integrated statutory authority model that was typically how things were done since it made some sense for the same person to supply both the physical connection to your house and the billing functions. What we saw was a wider separation of generation and retail. That has largely been abandoned and we have seen reintegration of generation and retail. I think that is the first misunderstanding.

The second one is we have seen the notion of competition wavered about at times where households really do not have the capacity to manage their electricity consumption in ways that make competition useful to them. We really needed to develop and install smart meters, get people experienced with managing their electricity use over the time of day with a range of tariffs before we can consider real benefits arising from retail level competition.

The third problem is policy makers, in setting the regulation of distribution, did not really understand distribution is not their biggest connection and the volume of usage is important. We have distribution charges which have been fixed in pro rata terms when what matters in distribution is peak usage. What we have seen is an effective subsidy in particular to how to use an air conditioner, people responded to that subsidy by moving to expanded use and that, in turn, has increased the demand on the distribution network.

All these things were misconceived and most of them reflect a measurable faith in competition as opposed to an analysis to what competition achieves.

Mr BARRETT: The user in competition you are talking about in regard to installing smart meters: could you run through exactly what the process is

¹⁶ Committee Hansard, Mr Ken Clarke: Board Chairman, Power and Water Corporation, Public Hearing, 28 April 2014, p. Uncorrected transcript, pp. 85-6

and how that can better equip customers to make informed decisions as to their utiliser and why that assists competition in the future?

Professor QUIGGIN: Sure, and most of this is more applicable to the national electricity market. I am not fully aware, as I say, of the details of the Northern Territory, but what you see in the national electricity market is most of the costs on the generation side, or most returns to generators arise on the relatively small number of days the entire system is operating flat out. The big cost is just to maintain enough capital stock to operate the system flat out. Those typically are hot summer afternoons, but consumers do not see any difference between the price of electricity they pay on a hot summer afternoon and the price they pay mid-morning in spring. Some of that could be handled by pricing but has not been, but the big problem is that measuring the fact it is not there to enable consumers to respond to those price changes.

Until we have that, there is no real sense in the pricing on the production side feeds through to consumers. We should have moved to those things before we started down the path of attempting to introduce things like retail competition.

Mr BARRETT: So you do not per se have an issue with competition in these market structures, we just need a better understanding of these market structures so as to utilise the positive effects of competitions effectively?

Professor QUIGGIN: That is correct, yes.¹⁷

- 3.9 Some Members of the Committee were concerned that there has not been sufficient analysis of how the proposed separation of PWC would play out in the Northern Territory. While the Committee was told in principle how the reforms would translate into benefits for Territory consumers, it was not presented with any hard data or modelling demonstrating that the benefits would be greater than the costs.
- 3.10 Some Members were concerned that, while disaggregation might be necessary for the development of competition, and competition has been a proven driver of efficiency in many markets, it was not apparent that disaggregation would lead to sufficient competition, or even a sufficient threat of competition, in the Northern Territory market to obtain the hoped for benefits.
- 3.11 There is clearly a potential for competition, with QEnergy having already entered the retail market and Northern Power considering entering the generation market. The Committee also raised the question of the scope for competition in the Northern Territory with Mr Tregilgas:

Ms MANISON: So just going back a bit to the theme of the questions that the member for Nelson had, regarding competition. This morning we have heard that we cannot see any detailed cost benefit analysis of what structural separation will mean by splitting up Power and Water for ordinary Territorians. Very keen to find out - clearly NEWCO has been talking to potential competitors to come into the Territory market; just keen to find out about who you have been talking to but also what work has been done around looking at whether or not when we have a small population and a huge amount of land and distance that we cover here in the Territory

¹⁷ Committee Hansard, Professor John Quiggin: University of Queensland, Public Hearing 28 April 2014, pp 73-4

including some very remote communities and so forth. Is competition going to be sustainable here in the Territory? How is it going to go given that we are not South Australia, we are not Victoria, we are not the east coast network. We have got a very small population here. We are just getting told at the moment that; "she'll be right, competition will happen, it is going to be a good thing for everybody". But we have not seen any evidence to show that, we have not seen any documentation around that, just keen to find out about the discussions with the competitors but also do they see that competition is feasible here in the Territory?

Mr TREGILGAS: The substance of those discussions with competitors are commercially confidential but I can assure you that from the generation perspective there are discussions with alternative retailers and from the retail perspective, there is discussion taking place with an alternative generator. Each of these two new businesses' interests are to encourage competition in their area of resourcing generation for retail, and in the retail end of the spectrum for generation. These are continuing.

I do not think we should show our inferiority complex as the Territory.

Mr WOOD: We're not! We are worried about Territorians

Mr TREGILGAS: We can support more than one retailer - probably three retailers in the Top End and a couple of generators, at least, in the Top End as well. We have generation sets sittings on the other side of the harbour that, if Power and Water had been more open to the possibility of active involvement by others in the market, might have been part of our Darwin-Katherine grid. That was discouraged by a board and management interested in preserving its business and, ultimately, it preserved its business to the cost of Territory consumers who are now paying more for their power than they need.¹⁸

3.12 Another issue that arose from the evidence before the Committee was whether the level of disaggregation is optimal. The Committee notes that QEnergy was of the view that splitting Power Generation into two Government owned generators would have made a more competitive market, and consequently put great pressure on prices.¹⁹

3.13 The Committee was unable to assess the quality of the analysis done as it was informed it could not be made available due to Cabinet confidentiality, as outlined in the following exchange:

Ms MANISON: ... was there any cost benefit analysis done around the decision to go forward and structurally separate Power and Water?

Ms RYAN: As Mr Tregilgas mentioned earlier, in everything we do we are always looking at the costs and benefits of undertaking any kind of project, new program or reform. We have had a look at what other jurisdictions have been doing and have been looking for some time. We are 15 to 20 years behind where other jurisdictions are at.

Internationally, this has been happening. Japan and Singapore are starting to look at it now as well, so there is a lot of information and research out there around the benefits of structural separation, improving competition, or access to competition, and what those benefits are. We have also

¹⁸ Committee Hansard, Mr Alan Tregilgas: Executive Director, New Corporations Unit, Public Hearing, 28 April 2014, p. 4Uncorrected transcript, pp 9-10

¹⁹ Committee Hansard, Ms Kate Farrar: Managing Director, QEnergy, Public Hearing, 28 April 2014, pp.61-2

undertaken a look at the costs and for us the costs are relatively minimal in our view, compared to the long-term cost of not doing structural separation.

Mr WOOD: Can I just ask on that—I have seen figures that show, in America, municipal power and the generation plants have produced cheaper power than private companies, so you are saying that we are following what other places have done. Can you tell us whether the introduction of the ownership of power by private companies has actually shown benefits to the household lease in price of electricity? Is it being done cheaper than say a government monopoly would have done it and where are those figures to show that?

Ms RYAN: What you can see is that if a private provider comes in, particularly ones that come into - if competition does come into the Territory and what we are doing is putting in a structure that enables them to come into the Territory - they are operating larger businesses across Australia. They already have systems, they already have processes, they have a lower set up cost. In the case of the potential new entrant to the market they are going to, as Alan mentioned, be running generators aimed at doing the base load. They are more efficient generators so that can only be of benefit to consumers in the long-term. It will keep the costs down.

Mr WOOD: You are not likely to look at consumers in such a small market. Most of those companies will have shareholders; they will be a shareholding company; they will have their own boards that will have to be paid for; they will require a profit.

Ms RYAN: But they will be selling lower cost power to the retailer and the retailer will be able to pass that on. Now whether that means ...

Mr WOOD: So will the person in Wanguri get that?

Ms RYAN: ... I said the power price will not drop, but we do think that the increases will be lower as a result.

Ms MANISON: So given there has been some work done around that, I am assuming it would be looking at the cost-benefit analysis. We know Treasury loves forecasting a lot. Is there any documentation, aside from the information paper that Treasury put out to do with the structural separation that shows that analysis, that you would be able to share with the PAC?

Ms RYAN: I think it is really just the work that we have been undertaking in-house. We have put it into Cabinet submissions so obviously we have got Cabinet-in-confidence issues. We have not gone out and paid a consultant to come up with the answer that we already know. As far as we are concerned we are Treasury. We do not like spending money, we would rather save it for other things, so we have not actually got a report that we could table to you, but the history is there. The other benefit of actually undertaking this so late is that we can see what has happened in other jurisdictions: what they have done right, what they have done wrong, and try to avoid those pitfalls and actually try to implement the best practice from what we have seen around the rest of the country.²⁰

²⁰Committee Hansard, Ms Jodie Ryan: Under Treasurer, Department of Treasury and Finance, Public Hearing, 28 April 2014, pp. 25 - 6

4 Other Issues

Cost of separation process

- 4.1 The Treasurer has approved expenditure totalling \$2.8 million as the amount to be spent by the Northern Territory Government on PWC's structural separation. Of this amount, only \$400,000 is recurrent in nature.²¹
- 4.2 It is estimated that the additional costs of the Board and support staff from the two new corporations will be \$4 million.²²
- 4.3 Details of the cost of the separation are outlined in the New Corporations Unit's submission, which provides the tables copied below.

Table 1: Structural Separation Costs – Estimates – 2013-14

	Approved budget ^(a) (\$000s)
Board	150
CEO, CFO and support	250
Specialist external advice	
legal	750
commercial advice & project management	750
legislation and executive search	300
technical advice & financial modelling	350
Total specialist external advice	2,150
Corporate costs (branding, comms, etc)	250
TOTAL	2,800

Source: New Corporations Unit, Department of the Chief Minister

(a) As approved by the Treasurer.

Table 2: Structural Separation Costs – Estimated Annual Costs (2014-15 \$s)

	GenCorp (estimate) ^(a) (\$000s pa)	RetailCorp (estimate) ^(a) (\$000s pa)	Total (estimate) ^(a) (\$000s pa)
Board	350	350	700
CEO, CFO and support	700	600	1,300
Additional staff	200	800	1,000
Other corporate costs	500	500	1,000
TOTAL	1,750	2,250	4,000

Source: New Corporations Unit, Department of the Chief Minister

(a) As estimated by the New Corporations Unit, and does not include the costs of regulatory reform or business improvement. Excludes any direct costs for the ongoing PWC, but includes an allowance for additional user charges yet to be negotiated that may be necessary to recover any additional spend by the ongoing PWC on IT systems essential to the efficient provision of shared services to the two new corporations.

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²¹ Submission No 4, New Corporations Unit, 25 April 2014, p 8

²² Submission No 4, New Corporations Unit, 25 April 2014, p 9

²³ Submission No 4, New Corporations Unit, 25 April 2014, p 13

Does generation competition mean high costs for taxpayers?

- 4.4 The Power and Water Corporation currently has excess generation capacity. Competition in generation means that other generators may enter the market and result in PWC generation assets being used less than expected or 'stranded'. The Utilities Commission has concluded that as competitors enter the market GenCorp will have to write-down its non-performing or obsolete assets, noting that it should only receive a return on an efficient asset base and the Government has determined that competition entering the market is desirable.²⁴
- 4.5 This led to questions whether competition in generation would benefit consumers and taxpayers as the value of public assets diminished and were underutilised.
- 4.6 Mr Tregilgas outlined to the Committee that such competition will only reduce the cost of wholesale power, and the consequent write-downs of assets will have no impact on taxpayers:

The loss of market share by GenCorp to new generators like NP will only reduce the costs of wholesale power paid by power retailers in the Darwin-Katherine market.

Any of GenCorp's generation assets made redundant by the entry of third-party generation competitors will be restricted to those generation assets that cost more to operate in order to produce power than the newer generators. Most of these redundant generation assets reflect poor investment decisions by past Boards and management of PWC. Writing off the value of these redundant assets is generally accepted accounting practice in such circumstances. Writing off the value of these assets means that GenCorp's customers are not expected to continue to bear the cost of past investment mistakes by PWC. As a result, GenCorp's costs of producing power is not expected to rise as a result of entry by new generators. The write-downs are notionally borne by taxpayers, but these valuation losses have no meaning for or impact on taxpayers as they involve sunk costs in that they involve values that are not recoverable by taxpayers.

Any of GenCorp's gas take that is made surplus to its requirements is expected to be sold instead by PWC's Gas Sales Unit to the new generators taking market share from GenCorp. These alternative sales are permitted under PWC's existing gas supply agreements. PWC's take or pay obligations will be unaffected. As a result, GenCorp's costs of producing power is not expected to rise as a result of entry by new generators.²⁵

Impact on staff

- 4.7 The Committee had a number of questions relating to the impact of the proposal on staff. The Committee was advised that the aim of the proposal was for the

²⁴Utilities Commission of the Northern Territory, *Review of Wholesale Electricity Generation Market Arrangements for the Northern Territory: Final Report*, Utilities Commission of the Northern Territory, Darwin, February 2014, p. 14

²⁵Mr Alan Tregilgas: Executive Director, New Corporations Unit Tregilgas, Answers to questions on notice, 3 May 2014, p 3

number of staff to remain the same, and the majority of staff to have little change in their roles. Consultation on the new structures was underway.

Ms MANISON: Are all staff affected by the structural separation aware of where they are going under the new work structures you have within Power and Water Corporation?

Ms WATSON: I am Lisa Watson. At this stage we are working through the consultation process with the new org charts for the new government-owned corporation. We have put in place a subcommittee to JCC and discussions on the new org charts took place over the last couple of weeks. We are now starting to consult with staff.

Ms MANISON: Is it possible to get those new org charts tabled for the committee?

Mr CLARKE: Yes, sure.

Ms MANISON: As part of the structural separation do you anticipate any job losses within Power and Water Corporation?

Mr CLARKE: No, the whole - this is one of the key things with this. We are seeking to say to staff essentially you will go home one night and turn up the next day and your job - nothing will have changed other than the fact you are in either power retail or power generation. A small number might have some other implication for them, but the idea is the number of staff will remain the same.

Ms MANISON: A number of staff will have their jobs varied, changed according to ...

Ms WATSON: Our ultimate goal is exactly that smooth transition for all our staff. There will be some staff within the new structures that may have different functions within their role and we will talk to those individuals, but it is limited in numbers. The majority of staff will wake up on 1 July and go to work about their normal business. They have raised with us that they just want to get on with their everyday job come 1 July and do not really care what they are called.²⁶

4.8 Nevertheless, the Committee noted media comments by the Treasurer indicating his view that PWC was currently overstaffed and there would be reductions in staff numbers.²⁷

4.9 In this regard, the Electrical Trades Union noted:

For me a key flag along those lines is always apprentices. One of the really disturbing comments through the industry out of Victoria was for 10 years - once they split up and sold off they did not employ any junior apprentices for something like 10 years. Through working at Power and Water, we have a massive turnover of staff a number of years ago. We would get tradesmen from down south who struggled to cope with the conditions. They would move into this environment not understanding what the cost of living was, and Power and Water's pay structures at the time would make sure they sat on the bottom pay level for years and people could not afford that. We have done some work around making sure it is more equitable for people, but what really disturbs me is we have already almost halved the Power and Water apprentice intake this year from other

²⁶ Committee Hansard, Mr Ken Clarke: Board Chairman and Ms Lisa Watson: senior Executive Manager Governance & Corporate Services, Power and Water Corporation, Public Hearing, 28 April 2014, pp. 80-1

²⁷ <http://www.abc.net.au/local/stories/2014/01/09/3922967.htm?§ion=news>, accessed 6 May 2014

years. That, to me, is a pretty good indication about where things will head.²⁸

²⁸ Committee Hansard, Mr Paul Kirby: NT Organiser, Electrical Trades Union of Australia, Public Hearing, 28 April 2014, p. 113

5 Conclusion

- 5.1 The efficiency of providing electricity to consumers in the Northern Territory needs to improve to reduce the direct costs to consumers and the indirect costs to taxpayers.
- 5.2 The proposed separation of PWC is aimed at improving the efficiency of electricity provision by increasing competition in the electricity market and improving accountability and incentives for PWC's businesses.
- 5.3 Some Members of the Committee remained concerned that no projections or modelling could be provided to the Committee to demonstrate that the benefits from the proposal would be greater than its costs. This increases uncertainty regarding whether the anticipated benefits from the proposal will exceed the costs.
- 5.4 Some Members of the Committee considered that there was not adequate cost benefit and risk analysis to justify the proposed separation. However, the majority of the Committee considered that the case for the proposed changes had been well made and any delay would come at a considerable cost to the Northern Territory.
- 5.5 The majority of the Committee therefore recommended that the Assembly pass the Bills.

Recommendation 1

That the Assembly pass the Power and Water Corporation Legislation Amendment Bill 2014 serial 63, the Power Generation Corporation Bill 2014 serial 64, and the Power Retail Corporation Bill 2014 serial 65.

Appendix A: Submissions Received

1. Utilities Commission of the Northern Territory, 24 April 2014
2. Power and Water Corporation, 24 April 2014
3. Northern Territory Council of Social Services, 24 April 2014
4. New Corporations Unit, 25 April 2014
5. Electrical Trades Union, 25 April 2014
6. Professor John Quiggin, 26 April 2014

Appendix B: Hearings

Public Hearing – Darwin, 28 April 2014

- New Corporations Unit
- Department of Treasury and Finance
- QEnergy
- Professor John Quiggin
- Power and Water Corporation
- Electrical Trades Union of Australia

Appendix C: Department of Treasury and Finance Answers

By letter dated 2 May 2014, the Under Treasurer provided the following answers to the Committee.

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1. Will the government owned corporations (GOC) have to pay Goods and Services Tax (GST) to each other for services provided?"

In the short term, due to the existing integrated IT systems owned by the Power and Water Corporation (PWC), the Power Generation Corporation and Power Retail Corporation will be grouped for GST purposes with PWC. GST grouping means that GST will not be charged between the GOCs. However, the GOCs will still report and be audited as separate entities with their own Australian Business Number (ABN).

Consistent with Government's intention that dealings between the monopoly and contestable businesses operate independently, it is expected that over time, the GOCs will adopt their own IT systems at which time, the treatment of GST between the corporations will change as required by the Australian Taxation Office.

2. A continuing issue of concern raised before the Committee is the potential for privatising Power and Water Corporation assets and businesses. While it is clear there is currently no intention to privatise, questions have nevertheless been raised about the potential for privatisation in future.

It would therefore assist the Committee if you could provide any advice on the limits on the ability to sell Power and Water Corporation assets and businesses under existing legislation and under the proposed amendments.

As recognised by the Committee, there is no intention to privatise the Power and Water Corporation (PWC) and as such, the legislative amendments have not been drafted with this intent. In drafting the legislation to implement the structural separation of PWC, the intention is to transfer assets, liabilities, rights or instruments from PWC to the two new government owned corporations (GOC) only, which are being established as part of the legislative package. The legislation has not been drafted to privatise PWC or the new GOCs. From the Department of Treasury and Finance's (DTF) perspective, there is nothing in the proposed amendments that makes it easier to sell assets or businesses.

New section 53B(1) of the *Government Owned Corporations Act* (the Act) states that "Regulations may be made under this section for the purpose of effecting the transfer of all or part of the business of a Government owned corporation to a relevant entity." A relevant entity is defined in section 53A to include GOCs, their subsidiaries, statutory corporations, the Territory, or "a corporation (as defined in the *Corporations Act 2001*), or other body corporate, that is owned by the Territory." As such, the new provisions only allow for regulations that provide for transfers to entities already owned by the Territory Government.

In terms of the existing legislation, section 38 of the Act provides that a GOC cannot dispose of capital or financial investments above a threshold without the approval of the shareholding Minister. This constrains the ability of a GOC to sell assets, but clearly envisages that a disposal of capital or financial investments could occur above

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that threshold if approved by the Minister. Whether it is technically possible for significant assets or businesses to be sold without further legislative amendment, is both a legal and commercial question, and could not be definitively answered without both legal and commercial advice in the context of a defined sale.

In practice, DTF considers it extremely unlikely that a sale of a significant asset or business could be effected without legislative amendment. Amendments would be necessary, among other things, to confirm to the purchaser that the Minister has the power to sell the assets or business; to deal with any residual assets or liabilities; and, if relevant, the winding up of any government entity holding the business; to deal with taxation matters, including the liability for transfer duties; to deal with employment transfers as required; and to deal with any licensing requirements. Most of these matters would be pre-conditions for any buyer.

Further, in previous cases where the Northern Territory Government has sold assets, it has always entered into sale specific legislation, for example the *Sale of the NT TAB Act 2000* and the *Ayers Rock Resort (Sale) Act 1997*.

The Act is considered to be generic legislation, intended to apply to all current and future GOCs. On drafting the amendments to enable the structural separation of PWC, including provisions dealing with restructuring and transfers, it was considered prudent that the amendments to the Act should deal with all possible forms of restructuring.

If the due diligence exercise identifies the need to transfer instruments, contractual rights or obligations, or assets etc to a body within Government (either a statutory body such as the Utilities Commission, or an agency such as the Department of Mines and Energy), the legislation has to be wide enough to account for this possibility.

Separately, there is a process for establishing the wholesale market arrangements that will apply to the electricity generation market in the Northern Territory. This may see the establishment of an independent system control function and wholesale market operator. The governance and structure of such a body is not known. For example, it could be a GOC or a statutory body. In the National Electricity Market, the equivalent body, the Australian Energy Market Operator, is established as a company limited by guarantee under the Corporations Act. As such, it is prudent that the legislation be established to allow a wide range of options.

Dissenting Report by Ms Manison & Mr Vatskalis

PUBLIC ACCOUNTS COMMITTEE INQUIRY INTO THE SPLIT UP OF THE POWER AND WATER CORPORATION – MINORITY REPORT

Introduction

The split up of the Power and Water Corporation (PWC) is a major policy decision that will impact on the Territory's budget position and the cost of electricity, water and sewerage for Territory families and businesses.

The Territory community is entitled to know about the full implications of the Government's decision to split up the PWC before the enabling legislation is considered by the Legislative Assembly.

This was the key consideration in our support for a Public Accounts Committee (PAC) Inquiry into the Bills.

Although constrained by a very short timeframe, the Inquiry identified serious flaws in the Government's decision to split up the PWC.

Cost Benefit Analysis

A thorough analysis of the cost, benefits and risks of significant policy and fiscal proposals is a basic requirement of good governance. But it was clear from evidence presented to the Inquiry that a cost benefit analysis of the proposal to split up the PWC has not been undertaken.

None of the key agencies involved in developing and implementing the Government's plan to split up the PWC was able to provide the PAC with a detailed cost benefit analysis on the proposal or show any quantifiable benefits that would result from structural separation.

This is a glaring deficiency given the profound implications of the split up for the Territory's fiscal position, the cost of running businesses and the cost of living for Territory families.

The Government has presented the PWC split up as a cost saving exercise intending to put a lid on power price increases, improve financial transparency and facilitate competition in the Territory's electricity sector.

However during the PAC hearings it became obvious from all the evidence presented before the committee that the Government's stated reasons for the split up were not supported by any evidence or substantial work on risk and cost benefit analysis.

The evidence reaffirmed that the Government's decision to split up the PWC is driven by an ideological commitment to privatise the Corporation. This was very apparent from the evidence regarding the proposed amendments to section 53 of the Government Owned Corporations Act.

The Costs

The submission from the New Corporations Unit in the Department of the Chief Minister (NewCo) to the PAC sets out an estimated cost of \$6.8 million to split up the PWC. This is substantially higher than the \$2 million price tag previously floated by the Treasurer.

During the PAC hearings the PWC outlined that their expenditure for 2013-14 for structural separation had totalled \$2.2 million, which was more than the \$435,000 stated in their written submission. They were also unable to provide a budget for the cost of structural separation for 2014-15.

It was also clear from submissions to the Inquiry and evidence taken during the public hearing that the NewCo estimate for the split up is not set in concrete and will need to be revised over time.

It is our view that the true cost to split up the Corporation will be substantially higher than \$6.8 million estimated by NewCo, especially given the increased budget presented by PWC.

The Benefits

The submission from NewCo to the PAC stated:

"The sole aim of PWC's structural separation is to strengthen the Government's ability to:

- put a lid on power prices, and
- put downward pressure on power costs."

But there was no analysis or modelling in the NewCo submission setting out in concrete terms the purported benefits of structural separation. When questioned by PAC members the Executive Director of NewCo confirmed there was no cost benefit analysis available in the form requested by the Committee.

The information paper on Northern Territory Electricity Market Reform published by Treasury also contains no cost benefit analysis or modelling on the purported benefits of structural separation. When questioned during hearings the Under-Treasurer was also not able to provide a documented cost benefit analysis on structural separation to the PAC.

In common with NewCo and Treasury, the submission from the PWC was also silent on the tangible benefits of dis-amalgamation and contained no concrete analysis of the costs and benefits of structural separation.

In response to questions from PAC members, the Chair of PWC confirmed there was no cost benefit analysis or economic analysis undertaken on the outcomes of structural separation and its implications for electricity prices.

In written submissions to the Inquiry the Northern Territory Council of Social Service (NTCOSS) and the Electrical Trades Union (ETU) pointed to the need for proper financial analysis to underpin any decision to split up the PWC.

NTCOSS stated:

"It appears to NTCOSS that the NT Government is pursuing efficiencies while adding risk to the market through opening up competition at both generation and retail levels, and at the same time asking investors to contribute very significant levels of capital. Economies of scale consideration will be critical for the NT, as a very small population base across a very large expanse."

NTCOSS recommended:

"For the NT Government to present a financial analysis showing the difference between the rate of return PWC is currently receiving, with the rate of return that they hope the private sector will make in the future when the power and water split takes place and competitors can enter the market."

The ETU, in its submission to the PAC, also drew attention to the absence of detailed analysis to support the Government's decision to split up the PWC.

The ETU stated:

"There has been no evidence provided that lower electricity costs will result from these reforms. In fact, evidence from other states points to the contrary."

The ETU recommended that:

"Detailed independent modelling on electricity price paths.....be urgently undertaken to ascertain the residential price impact of the disaggregation of PWC and associated market reforms..."

"The Government undertake further analysis and investigation on alternative market design.....before any further consideration of the current reforms."

The Legislative Agenda

The Government has introduced three Bills to split up the PWC:

- a) Power Generation Corporation Bill;
- b) Power Retail Corporation Bill; and
- c) Power and Water Corporation Legislation Amendment Bill (the Bill).

During the PAC hearings witnesses were questioned about the scope of the Treasurer's powers in the Bill to transfer assets to and from Government Owned Corporations (GOC's).

The interpretation of "relevant entity" was an import focus during the hearings.

Under proposed sub-section 53A "relevant entity" means any of the following:

- (a) a Government owned Corporation;
- (b) a subsidiary;
- (c) a statutory corporation;
- (d) a corporation (as defined in the Corporations Act 2001), or other body corporate, that is owned by the Territory;

(e) the Territory.

Witnesses confirmed at the PAC hearings that there was substantial involvement of external consultants in the drafting of the Bills.

Agencies asserted that the intention of the Bill is to allow the transfer of assets to and from GOC's. But there was uncertainty about the full scope and intention of proposed section 53A and whether "relevant entity" would facilitate transfer of PWC assets to a private entity.

When asked why it was necessary to have broader definitions of entities beyond a Government Owned Corporation, the Executive Director of NewCo said:

"...but I agree with your point that fundamentally it is fairly straightforward transfer by and large between one government owned corporation to new corporations and the listing of all the possibilities is not actually essential ..."

When Treasury was asked why it was necessary to go beyond the definition of government owned corporation as an entity, the Assistant Under-Treasurer said:

"So in this legislation it is not just specific to the structural separation of Power and Water. It has been drafted in a way that has been broad and generic to give government flexibility, I guess, in terms of whatever it wants to do in the future."

Submissions to the PAC from NTCOSS and the ETU raised concern about the privatisation agenda inherent in the Bills.

This bill goes beyond allowing the transfer of assets and liabilities necessary for the separation of PWC. This does allow for the transfer of assets and liabilities beyond the Power and Water Corporation, Power Generation Corporation and Power Retail Corporation in the future, which has opened the door to the sale and privatisation of these assets.

In proposed section 53B of the Bill, the Shareholding Minister is also given the ability to transfer assets by regulation, which would not require any scrutiny through parliament or by Territorians.

Conclusion

Despite the potential adverse impact on Territory families and businesses, the CLP Government has not undertaken, or made available to the public, a detailed cost benefit analysis of the split up of the PWC. Given that the dis-amalgamation of public utilities elsewhere in Australia has driven up the cost of electricity, the Government's failure to undertake a credible cost benefit analysis could expose Territory families and businesses to significant increases in power prices when the PWC is split up.

Proposed sections 53A and 53B of the Government Owned Corporations Act could authorise the Treasurer to transfer the assets of the Power and Water Corporation to allow for the potential privatisation of assets.

Recommendations

Based on the considerations above concerning the failure of the Government to undertake a cost benefit analysis and the privatisation agenda inherent in the draft legislation, we recommend that the Bills to split up PWC be withdrawn.

If the Government intends to proceed with structural separation of PWC, they should conduct a thorough and detailed analysis of cost benefits, risks and the impact on future electricity prices for Territorians. This information should be made public so Territorians can see some evidence to justify the Government's direction.

Any future legislation should amend the provisions which allow the Shareholding Minister to transfer assets by regulation with no scrutiny. The definition of 'relevant entity' needs to be amended because as currently defined it opens up the possibility of transferring assets beyond Government Owned Corporations which will lead to privatisation.



NICOLE MANISON MLA
Member for Wanguri



KON VATSKALIS MLA
Member for Casuarina

Dissenting Report by Mr Wood

Dissenting Report

Recommendation

That PWC is not split into three separate Government Owned Corporations but instead its existing divisions are enhanced with tighter accounting regulations to achieve the same objective.

Reasons

There is not enough information or proof that the splitting up PWC as put forward by the Government will achieve the goals that the Government claims.

Competition is already permitted in the Northern Territory electricity market. Q Energy is in the market for the retail sale of electricity and already supplies Parliament House.

The alternative proposed to separate GOCs would be cheaper ie a divisional break up where each division was required to show and report annually by a Ministerial direction, details of their financial operations.

Until 2007-08 PAWC (along with all other entities) was required to include segmented information in the notes to its financial statements. A copy of the relevant note is attached. A change in accounting standards which flowed from a decision that Australia would adopt international accounting standards saw the requirement to include segmented information dropped for entities that did not issue financial instruments that were traded in financial markets. Accordingly PAWC ceased publishing the information and, as auditor, I was not in a position to enforce it. The data needed to produce this type of information is readily available within the PAWC financial systems and could be provided if required. If the Legislative Assembly should desire the Corporation to publish information about segment performance it could be achieved by Ministerial direction Frank McGuiness, NT Auditor General


PWC will be disadvantaged because it will be split into three different companies (GOCs) with 3 boards and administration, whereas competing generating/retail companies won't have that same breakup having only one board plus the ability to talk to divisions within their companies.

The splitting up of PWC should not have been done until a proper inquiry through the PAC occurred where there would have been sufficient time to thoroughly investigate the Government's proposals and claims. One public meeting and no ability to look at other systems in other states highlights the lack of desire by the Government to put their proposals through a thorough investigative process something that could have been done by the PAC. Claims that this was already done through the Renewal Management Board

We have been in government around 18 months and the first thing we did when we came to government was undertake a very thorough and forensic analysis into the finances of the Northern Territory, similar to the Commission of Audit, which has just been handed down by the federal government. This was undertaken by a group of gentlemen that have been referred to as the Renewal Management Board. Yes, the Leader of the Opposition can giggle and sneer and criticise the Renewal Management Board, but it did effectively what the Commission of Audit has done for the federal government. It analysed our financial position. (Member for Araluen)

shows a lack of understanding of the role of the PAC in this Parliament. The Renewal Management Board was an internal structure set up by Government, not Parliament, and was not open to public scrutiny.

In relation to the issue of privatisation, whilst I cannot see anything in the Legislation that specifically permits the selling off of PWC, by splitting PWC into three separate companies it will be much easier for a Government to sell off PWC, GOC by GOC, if a Government so desires, rather than selling the whole business.


GARY WOOD
MEMBER FOR NELSON