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MEDIA RELEASE

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Proposed ACTEW sale based on accounting errors

The Australia Institute today releases its comprehensive analysis of the proposed privatisation of ACTEW. Commissioned by the ACT Trades and Labour Council, the report has been prepared by a team of experts in the electricity and water industries and has been professionally refereed by three of Australia's most eminent economists.

The report concludes that the study by ABN AMRO/DGJ consultants, on which the Carnell Government's case for privatisation rests, contains serious accounting errors. These errors result in an incorrect valuation of the retention of ACTEW in public ownership.

The report says that the ACT Government's case employs an inconsistent mix of cash-based and accrual accounting methods to value ACTEW and has counted the risks associated with continued public ownership twice.

"Rather than applying a consistent analysis, the Government has arbitrarily selected measures that make its current fiscal position look as bad as possible and the benefits of privatisation as large as possible", the report says.

The Institute's report uses consistent accounting methods to assess the financial value of ACTEW under public ownership. Using 'best estimates' of future costs and revenues, ACTEW's total value is $1766 million. If ABN AMRO's estimate of the private sale price is correct, then the privatisation of ACTEW would result in a loss to the ACT public of around $700 million.

Using ABN AMRO's worst case scenario, combined with proper accounting methods, the report shows that the public would still be worse off after privatisation. The authors conclude that there is no foundation for the Government's claim that the public will lose $500 million if ACTEW is not sold.

One of the reason for the Government's mistaken conclusions about the need to sell ACTEW is that it misunderstands the nature of electricity market reforms. The report shows that competition in the electricity industry will not have a marked effect on ACTEW's overall viability because the great bulk of ACTEW's operations – including its electricity networks and its water and sewerage services – will never be subject to competition.

The Institute also analysed the opportunities for cost cutting in ACTEW under private ownership. On the basis of a comparative analysis of Australian electricity utilities, it concluded that cost savings would occur mainly in the networks maintenance budget and that this would result in a decline in the unusually high level of service quality and reliability on the ACT.

The Institute's report says that the problem of the ACT's unfunded superannuation liability has been exaggerated by the Government and the claim that it can only be addressed by the sale of ACTEW is false.

It analyses a proposal for ACTEW to make a $400 million initial payment plus an annual dividend of $25 million to the Superannuation Provision Account. It shows that this will result in repayment of the liability within the next 12-21 years while ACTEW retains its strong credit rating. At the end of the process the ACT public will still own a valuable asset.

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Dr Hugh Saddler is the Managing Director of Energy Strategies, a leading energy consulting firm, and is one of Australia's foremost energy experts. He has advised the electricity industry extensively and has consulted to Federal and State governments for many years. He was formerly a member of the Board of ACTEW.

Professor Max Neutze, AO, is Emeritus Professor at the Urban Research Program, ANU. He has held various senior positions at the University including Acting Vice-Chancellor. His professional work has specialised in urban infrastructure, including the water industry.

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The Referees

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