

Xenophon and Katter's concerns over Ausgrid sale ring hollow

Written by Lynne Chester, Senior Lecturer, Department of Political Economy, University of Sydney

Another political scare campaign has started. It's not about negative gearing or Medicare. This time it's the sale of the New South Wales electricity distribution network, Ausgrid.

The NSW Premier, Mike Baird, staked his government's re-election on the privatisation of 49% of the state's electricity distribution and transmission networks. The transmission network, Transgrid, was wholly privatised for A\$10.26 billion in 2015.

Final bids for Ausgrid are due July 25. Two global energy companies are in the running - State Grid and the Hong Kong-based [Cheung Kong Infrastructure Holdings](#) .

The South Australian independent Senator Nick Xenophon has raised "security and defence" concerns about the bid of the Chinese company State Grid to acquire 50.4% of Ausgrid. [State Grid](#) is the largest electricity company in the world and wholly owned by the Chinese Government. The independent Queensland MP Bob Katter has subsequently chimed in with similar concerns.

Xenophon's and Katter's concerns are odd because they show no understanding of the ownership of the Australian electricity sector, which has been progressively privatised since the mid-1990s. Nor do they reflect any understanding of State Grid's investment - and Chinese investment more generally - in Australia.

What is even odder is that these politicians' comments show no understanding of State Grid's existing investments in their respective home states. State Grid has owned electricity and gas assets since 2012 in South Australia, Victoria and Queensland. So why the so-called concerns now? Energy supplies haven't been threatened since State Grid invested in Australia.

Either Senator Xenophon and Mr Katter have been asleep for a long time or they are deliberately ignoring some basic facts in order to create public concern.

Chinese investment in Australia

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According to the Australian Government, [Chinese investment in Australia](#) reached around \$65 billion by the end of 2014 compared to \$2 billion a decade earlier.

The Foreign Investment Review Board (FIRB) screens investment proposals above thresholds set for different industry sectors. In the case of investment proposals by [Chinese State-Owned Enterprises](#) like State Grid, however, the FIRB screens them all irrespective of the amount or the sector.

Earlier this year, the Federal Treasurer, Scott Morrison, after advice from the FIRB, [rejected](#) a Chinese consortium's proposal to buy Australia's largest cattle empire S. Kidman and Co as being contrary to Australia's national interest.

State Grid is one Chinese company with significant investments in Australian energy – and these investments occurred long before the sale of Ausgrid was announced.

Australian electricity ownership

From 1995 to 2000, the Victorian and South Australian governments sold all their electricity businesses. Queensland sold its electricity retail companies late 2006. The NSW government sold its retail businesses in 2010 and generators in 2013-2014.

Of the three NSW distribution networks - [50.4% of Ausgrid is currently being sold; 50.4% of Endeavour Energy](#) is proposed for sale later this year; and, the NSW Government has stated it will keep 100% ownership of the regional distributor Essential Energy.

The [Australian Energy Regulator](#) (AER) reported that by 2015, in the [national electricity market](#), 72% of generation capacity is held by private owners along with 57% of transmission networks, 24% of distribution networks and 100% of the interconnectors between states.

Ausgrid's assets are about a quarter of the national electricity market's distribution networks.

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Once sold, 46% of distribution assets will be privately owned.

Offshore companies dominate these private ownership interests in the national electricity market. The AER has regularly reported these interests in its annual [State of the Energy Market](#) report.

A cursory read of the AER reports shows that companies from the US, Malaysia, Thailand, Singapore, Japan, China, Hong Kong, France, Spain, and New Zealand hold interests in Australian electricity generation, transmission and distribution companies.

In Senator Xenophon's home state, State Grid has owned – since 2012 - 46.5% of the SA transmission network, ElectraNet (the Malaysian company YTL Power owns 33.5%). Hong Kong companies are the dominant owners of the SA distribution network.

State Grid is also present in the ACT, Victoria and Queensland. It owns: 30% of the ACT's distribution network (ActewAGL); 20% of Victorian transmission assets and 15% of that state's distribution network assets through the three companies of AusNet Services, United Energy and Jemena.

Plus State Grid owns 60% of the Queensland Gas Pipeline (from Wallumbilla to Gladstone/Rockhampton which is pretty close to Mr Katter's electorate) along with other gas assets in NSW and Victoria.

Checks and balances

State Grid has owned Australian energy assets since 2012. In that time, State Grid hasn't "flicked the switch off" or threatened our energy supplies.

How could a company with less than a 50% stake in an Australian electricity business have that sort of control? This is what Senator Xenophon and Mr Katter would have Australians believe.

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State Grid is not exempt from FIRB screening. The China-Australia Free Trade Agreement specifically states that investment proposals from companies owned by the Chinese Government will be screened - no exceptions.

When a 65% foreign-owned consortium acquired the 99-year lease for Transgrid last year, the Federal Treasurer, Scott Morrison, imposed a number of [conditions on the consortium](#) as “safeguards” to “address national interest considerations”. The same would be expected if State Grid or Cheung Kong Infrastructure Holdings - or any other foreign company - acquired ownership control of Ausgrid.

Overall, the concerns of Senator Xenophon and Mr Katter ring hollow. Why is State Grid ownership of Ausgrid a problem yet it's ownership interest in the SA transmission network (or any of its other Australian energy assets) is not an issue? State Grid was also in the running for the sale of Transgrid. Where were Xenophon and Katter then?

Our politicians are being either a bit disingenuous with the facts or have been under a rock for quite some time.

Lynne has not received funding from any source in the research and writing of this article. She was an independent member of the Federal Government's 2011-12 Energy White Paper Reference Group, and is a former Board member for the National Offshore Petroleum Safety and Environmental Management Authority (2009-15) and the Bureau of Resources and Energy Economics (2011-14). She is a former Senior Executive of Energy Australia (1997-99) and a former adviser (1984-90) to Federal Labor Ministers. Since 2003, she has been an academic and the topic of her PhD was the restructuring of the Australian electricity sector. In 2012, she received funding from the Consumer Advocacy Panel (Australian Energy Market Commission) for a project investigating the impacts of higher electricity prices on low-income households. In 2014, she made presentations on privatisation to the Sydney Water Delegates Conference (organised by the Australian Services Union) and to the NSW Power Conference (organised by the Electrical Trades Union, United Services Union and Professionals Australia).

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