Submission of Tim Hyland on proposed sale of Aurora Energy

I do not support the proposed sale for the following reasons:

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(1) **Why is this proposed sale coming up now and the 'preferred option' was not campaigned for or discussed in the council elections**?

Since it was not something that people voted on in the election, and it is a huge decision with long term implications, why is it not subject to a referendum or public vote, only submissions that the council can ignore if it likes? What sort of precedent for other council assets does this set?

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(2) **A repeatedly stated justification for sale is that Aurora hasn't returned dividends to the council since 2017**.

- However, Aurora and the council are both part of the same public estate. Why does one part have to pay dividends to the other, within the same estate? The have the same owner--the ratepayer.

- Why should Aurora pay dividends at all anyway? It's a monopoly infrastructure utility. Dividends are surplus profits above and beyond the costs of operating/investment. We don't require the roading department, the public library, etc to pay a dividend back to the council. Aurora should be classed as an essential not-for-profit service not a business. As it used to be. It is there to support economic and social activity.

- The emphasis on dividends from the company should be dropped. It was at the heart of the under-investment scandal that emerged several years ago: it creates a terrible incentive (and therefore risk) of under-investment in future provision for the sake of short-term (annual) dividends.

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(3) **What is Aurora?**

Council seems to be treating it like just any other business it owns (e.g. stadium). The case is, Aurora is not making money, so therefore we should divest from it; it is simply a 'going concern'. Instead, we need to consider what Aurora is: It is an essential monopoly service, a fundamental infrastructure like the roads, the sewerage, the water supply; it is a strategic asset. It is too important to remove from local democratic control.

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(4) **Council would trade a concrete**, **real asset for speculative investment funds**

- yes this fund would be ‘diversified’, but an investment fund is still fundamentally a gamble on the future. It can be lost. In a world of increasing wars, financial crisis risk, and climate instability, it makes more sense to keep and look after real assets that we already have.

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(5) **Who will the new owners be**? Not only is there to be no democratic public vote on the sale, but also no public say on who would purchase it if council decides to proceed.

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(6) **If Aurora doesn’t make that much dividends (profits) as a business, and is forecast to require huge increases in capital investment to not only develop but also simply maintain the existing network (p. 10 of DCC Statement of Proposal), then we need to ask**: **why would a private entity want to buy it**?

- Sale price risk: the experience in other cases (in NZ and internationally like the UK) is that public assets are often sold (or shares floated) for less than their true value (see e.g. NZ Rail, UK Royal Mail) in processes managed by financial consultancies with conflicts of interest. In these cases the new owners make enormous gains at the tax/ratepayers' expense.

- Massive hazard of minimum investment and asset stripping by the new private owner, particularly for privatised monopolies (see e.g. NZ Rail, UK water companies, NZ power generators)

- Privatised companies will always want to prioritise money to shareholders or owners rather than invest in future (esp. long-term) provision (see e.g. NZ’s privatised electricity generators, who have an incentive not to invest to keep prices high, and are behaving accordingly). Public (listed) companies are legally obliged to prioritise shareholder returns. They are driven by top executives’ short-term profit reporting requirements rather than long-term investment needs so there is always an incentive to ‘run companies into the ground’.

- In the end local or central government usually has to step in again and pick up the pieces at the tax/ratepayers’ expense (e.g. NZ Rail, UK water companies)

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(7) **Council claims that electricity distribution is a regulated industry**, **so the new owners of this monopoly business would be subject to Commerce Commission and Electricity Authority regulation to prevent price gouging and under-investment**.

- however, those regulations are subject to central government, and can be watered down or changed on the whim of central government, beyond the local control of ratepayers and electricity network users.

- in NZ (and overseas), time and time again privatisation has led to rent-seeking, regulatory capture, and a ‘revolving door’ of senior personnel between privatised monopoly public assets and their regulatory agencies (as Vic academic Geoff Bertram has noted)

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(8) **Electricity distribution is a monopoly**. There is only one set of lines, one distribution system. There would be no competition, no consumer choice, so there should be no place for private ownership.

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(9) **Council argues that it could lower rates and debt through the sale because it would then not need to fund Aurora's ongoing renewal and development**.

- but that fundamental need doesn't just disappear with the sale, the renewal and development needs of Aurora would still exist. Do you think new private owner(s) would generously just pay for all of this? Unlikely; customers will. All electricity users are also ratepayers, so a sale is simply arranging that these costs will be charged to residents via a different avenue.

- Furthermore, public bodies are able to borrow at lower interest rates than private businesses, so private ownership would likely lead to higher prices than under public ownership.

- Sale proponents are looking at what's best for DCC, and more specifically DCHL, as an entity in isolation. Think instead, what's best for citizens of Dunedin and the wider region?

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(10) Private owners will want Aurora to return a profit to them over and above its operating costs, so **a business under private ownership will always mean higher prices for customers than an efficiently-managed public utility run at cost**.

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(11) **Furthermore, if it becomes privately owned and dividends are paid, and unless the new buyer is wholly local (unlikely), that money will flow out of Dunedin/Otago**. Whereas at present, if dividends are paid, they are at least re-invested into the council and its activities locally.

Priorities

As the financial situation is becoming more difficult due to global events, broader macroeconomic factors, etc, and the rate burden harder to sustain, then we need to think about priorities. If something must be cut or sold, then focus on non-essential things. Council needs to focus on the fundamentals. Electricity distribution is fundamental infrastructure, like the roads, the sewerage, the water supply; a strategic asset and a natural monopoly. Democratic local control over this is important.