

**Submission
No 93**

**INQUIRY INTO THE CONTINUED PUBLIC OWNERSHIP
OF SNOWY HYDRO LIMITED**

Organisation: River Murray Water
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Date Received: 27/06/2006

Theme:

Summary

From: "Bryan Harper"
To: <snowyhydro@parliament.nsw.gov.au.>
Date: 27/06/2006 11:34 pm
Subject: Submission to Inquiry

To: Stephen Frapell

Dear Stephen

Please find attached my submission to the Inquiry into the Continued Public Ownership of Snowy Hydro Ltd.

The submission includes two files - a covering letter and a summary of key issues.

Thanking you

Bryan

Bryan Harper
River Murray Water

Select Committee on the Continued Public Ownership of Snowy Hydro Limited
Parliament House
Macquarie St
Sydney NSW 2000

25 June 2006

Dear Sir/Madam

Inquiry into the Continued Public Ownership of Snowy Hydro Ltd.

Thank you for the opportunity to make a submission to the inquiry.

The recent discussions regarding a proposal to privatise the Snowy Mountains Scheme have highlighted existing inadequacies in the Snowy Water Licence in regard to downstream water management, as it was written with an inappropriately strong bias to electricity production and revenue.

These inadequacies of the Snowy Water Licence need to be carefully considered by water agencies, and the Water Licence needs to be independently reviewed.

I have 25 years experience working in areas of operation and system planning for the River Murray system, including experience on committees involved in the preparation of the Snowy Annual Water Operating Plan. Whilst the current Snowy Water Licence has a provision for an annual minimum volume for release to downstream valleys, this is not a sufficient safeguard for efficient downstream water management because it does not provide suitable rules for restrictions on high rates of release in periods prior to or when downstream irrigation storages are spilling and not able to re-regulate releases from the Snowy Scheme. It is therefore essential for efficient water management that the Snowy Water Licence is reviewed and improved so that there are adequate protections included regarding the pattern of release from the Scheme as well as the annual minimum volume of release.

The pattern of water release for the scheme is also important in dry seasons. If the annual release volume is put out in a pattern whereby low release rates are made in summer followed by high release rates in April, there can be significant difficulties for River Murray or Murrumbidgee River operation with a higher risk that water levels in Hume Reservoir or Blowering Reservoir become critically low at the peak of the irrigation season in March. Such was the case in the 2002/03 drought year for the River Murray System, not long after corporatisation of the Snowy Scheme.

Key issues relating to water management and other aspects are provided in the attached summary. I would be happy to elaborate on these matters if you so require, however, note that I will be on recreation leave until about 25 July 2006.

Yours faithfully

Bryan Harper

Proposed Privatisation of Snowy Scheme

Key Issues

Water Licence and Water Release Patterns

- Snowy Water Licence – an **Annual** Release Volume alone does not always provide the best outcome for maximising downstream water availability
- Many politicians, irrigators and others are **unaware of the limitations** of the current Snowy Water Licence
 - it is likely that most politicians, irrigators and others have **not had access** to the Snowy Water Licence, nor studied it, **nor are they aware of its limitations and inadequacies in regard to water management**
- Pattern of water release from Snowy is important to downstream users
 - release of large volumes of water from the Snowy Scheme when downstream storages Hume Reservoir and Blowering Reservoir are close to or actually spilling will result in loss of water as spill from those storages (this lost water cannot be utilised by irrigators and other water users) – if conditions then turn to severe drought, water availability to downstream valleys will be reduced (by up to hundreds of gigalitres (GL)) because there would be reduced drought reserve left in the Snowy storages
 - irrigation storages can spill at any time of the year; and demand for high rates of Snowy water release can occur at any time of the year (particularly if there are outages of other power stations)
 - the current Water Licence does not include any controls in regard to the pattern of release, and is therefore deficient in terms of water management
 - governments have not explained this to irrigators, because many in government are not aware of the inadequacies of the Water Licence
- an **annual** minimum release volume (as in the Water Licence) alone **does not** guarantee the best outcome for water management and water availability
 - release of large quantities of water from the Snowy Scheme at the wrong time results in some water which cannot be captured in downstream storage – i.e. results in loss of water availability to irrigators and others
 - these impacts need to be carefully modelled and the results considered by governments and the community
- In regard to water release patterns, particularly during critical drought periods, or during times of spill of water from irrigation storages Hume and Blowering:
 - to date governments **have been able to exert influence** on monthly Snowy water release patterns to assist irrigators and water users – i.e. to produce outcomes for efficient water management
 - if the scheme is privatised, governments **will have no influence** on monthly water release patterns – therefore efficient water outcomes would not always be achieved
 - downstream water agencies have requested suitable release pattern in critical periods in the past, but this would be possible if government ownership ceases
 - the best way to **preserve this influence** for best outcomes for water management is to continue with a corporatised Snowy Scheme

- in a privatised environment, the government will have no legal right or ability to influence Snowy water release patterns in critical or emergency situations, such as in an extreme drought
- limitations of the current Snowy Water Licence (in a privatised environment) have not been examined by an independent party

Effect on Irrigators

- a key factor in bulk water management is **timing** of delivery, just as it is with use of water on a farm
- the best timing of release for hydro-electricity does not also suit the best timing of release for efficient downstream water management
- SHL has stated that it currently ‘believes’ that the proposed sale of Snowy Hydro is good for irrigators, however:
 - there is no basis given for this belief
 - irrigators should be able to satisfy themselves of the ramifications of the proposed sale by looking at investigations and having the debate
 - a future private owner of SHL may not be so caring toward irrigators
 - there is no guarantee that future private owners will be interested in doing deals with irrigator groups for advances of water release, but if future deals are made, there is no indication as to what the cost to irrigators would be
 - irrigator groups are incorrectly assuming that a privatised owner would enter into special water release deals with irrigators in future – there is no guarantee that this would occur if ownership changes

Referral and Investigations

- the ramifications of the proposed sale should be carefully assessed in terms of:
 - the Murray-Darling Basin Agreement;
 - the National Water Initiative;
 - effects on national electricity market;
 - why have these assessments not been done ?
- the proposal for privatisation needs to be referred to:
 - the National Water Commission
 - the Murray-Darling Basin Commission
 - the NSW Department of Natural Resources
- the above organisations can then carefully model the impacts of changed Snowy Scheme water release patterns on downstream water users including the environment – **the effect of changed release patterns of Snowy ‘above-target’ water needs to be modelled** to determine the impact on other water users
- Objectives of the *National Water Initiative* include:
 - addressing future adjustment issues that **may impact** on water users and communities
 - policy settings which facilitate water use **efficiency** and innovation in urban and rural areas

therefore, a major proposal such as privatisation of the Snowy Scheme needs to be carefully considered in term of these objectives.

- the *National Water Initiative* Agreement includes actions across eight inter-related elements of water management – one of those elements is **integrated management** of water for environmental and other public benefit outcomes

therefore, loss of government control of a major resource such as Snowy water reserves should be carefully considered in the light of this element of management.

- why are governments and members of parliament calling for a study about the effects of privatisation of Telstra, Medibank Private, but not so for an equally if not more important issue of privatisation of Snowy Hydro ?

Timing

- why is there such a rush to privatise ?
- no parties will be affected if there is a proper investigation of the proposed privatisation and its ramifications to water management, electricity generation, and long-term economic advantages or disadvantages

Economic Considerations

- The Snowy Scheme earns about \$200 Million **each year** for governments and the community
 - this income is more valuable in the long term than a one-off sale (at a price which may be significantly under valued)
 - this long term income can be directed at key items such as:
 - water infrastructure
 - health
 - education
 - roads
 - etc.
 - this will be of benefit to the community in perpetuity
 - income from the Scheme is likely to increase over time (something that no doubt hasn't been factored in to a valuation)
 - the Snowy income is net of operating costs and maintenance renewals
- the value of the Snowy Scheme may be significantly under-valued, therefore a hasty sale may result in significant losses to the community
- there appears to have been no detailed economic analysis of the long term community advantages or disadvantages of privatisation of the Snowy Scheme – such an analysis is a fundamental requirement for a privatisation process
- why should taxpayers compensate a future private owner if increased environmental flow are required form the Snowy Scheme ?

Ownership

- the community is the owner of the Snowy Scheme
- governments have shares in the Snowy Hydro company and assets, but these shares are held on behalf of the community
- the community as owners, needs to be fully consulted before a sale of their assets proceeds

- a private owner of Snowy Scheme is **not** going to release water in a pattern which is best for downstream water management – as a private company, it would release water in a pattern to maximise electricity revenue, at the expense of efficient water management.

- it is appropriate to have water infrastructure under government control, just as it is appropriate to have government control over:
 - health, education
 - emergency services, roads
 - parliament and associated buildings and infrastructure
 - etc.

Proposed Cap on Share Holdings

- some groups have advocated a limit to the percentage of holdings which should be held by an individual or company in a privatised Snowy Scheme

- this indicates that there is real concern about how a privatised company may operate the Snowy Scheme

- it would not be feasible to consult all shareholders in regard to operational matters such as daily water release patterns from the Snowy Scheme – releases have to be made in response to electricity market and demand conditions

- a majority of shareholders would not be aware of water management issues, and would most likely seek to maximise company income rather than achieving the best outcome for water management downstream

- even if there were a cap of say 10%, all the shareholders can still vote in a block to maximise shareholder returns (as they typically do) from electricity production, which would not be the best interest of efficient water management

- the **only way** to have proper control over the behaviour of Snowy Hydro in regard to water and electricity is to **retain** government ownership

Benefits of Privatisation not Provided

- governments have not provided details of any benefits or advantages to the community from the proposed privatisation
- in terms of water management – there are no advantages for irrigators or the community in general, in fact there are significant disadvantages from having a private owner control the seasonal pattern of releases – the only requirement under the Water Licence is an annual release volume
- in terms of electricity production – there are no demonstrated advantages to the community in term of electricity prices
- in terms of economic management – clearly governments, and therefore the community, will have much greater long term benefit and income if the Snowy Scheme is retained by governments. Income from the scheme will increase in line with increasing electricity prices over time
- if the scheme were not economically lucrative, there would be not interest from investors to invest in such an operation

Bryan Harper
3 May 2006