

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

Organisation:

Name: Mr H M Talbot

Telephone:

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Theme:

Summary

30th June, 2006

Reverend the Hon Dr. Gordon Moyes
Chairman
Snowy Hydro Inquiry – Parliament of NSW
Parliament House,
SYDNEY NSW 2000

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SELECT COMMITTEE
SNOWY HYDRO

**Inquiry into Continued Public Ownership of Snowy Hydro Ltd
By HM (Max) Talbot**

1.) Investment Capital

The Managing Director of Snowy Hydro, Mr Terry Charlton, maintains that Snowy Hydro need access to investment capital to ‘grow the fantastic icon that is the Snowy Scheme’.

It needs to be recognised that the Snowy Scheme, as distinct from Snowy Hydro Ltd, was fully developed during the design and construction phase and that it is not possible to ‘grow’ it in any significant way; except to progressively replace assets with more efficient, modern plant and to build mini-hydro’s on two or three of its existing dams.

What he is really talking about is growing Snowy Hydro’s trading business to maintain or even increase its influence in the National Electricity Market, (NEM) quite possibly to the detriment of the Scheme itself and electricity consumers. He also had plans to invest in what can only be seen as inappropriate non-core businesses that had the potential to put the whole company at risk.

This rhetoric has continued post the decision by governments not to proceed in the sale.

It is apparent that the abovementioned view point is being taken at face value and has not been seriously questioned by governments. However, as outlined in my submission to the Inquiry I believe that Snowy Hydro, through retained earnings, can maintain and modernise the Schemes infrastructure and finance the construction of strategically placed gas turbine plant to reduce its trading risk - however, the construction of such plant should be subject to regulatory approval - see below.

If necessary governments should be prepared to forgo some of their dividends from Snowy Hydro.

There is no need for a massive capital injection.

Fore example, a 300 Mega Watt (MW) gas turbine plant can be purchased and constructed for under \$200m.

2) Snowy Hydro Growth – issues

Snowy Hydro growth by the acquisition or building of gas plant raises two issues that require close examination -

- (i) It has the potential to reduce competition within the NEM. Whilst the Australian Energy Regulator (AER which is part of the ACCC) agreed to Snowy Hydro's purchase of Valley Power in Victoria, and presumably the building of a 342 MW gas plant at Laverton outside Melbourne, it should not necessarily agree to further installations.
- (ii) The gas plant being built is open cycle, the most inefficient of this type of plant where exhaust gas heat energy is wasted to atmosphere – not the best use of a finite resource, even if they only run for a few hours each year.

In future, governments and the energy regulators (AER/ACCC and Australian Energy Market Commission, AEMC) must rigorously scrutinise Snowy Hydros' growth plans to ensure that they are appropriate and in the public interest.

I therefore suggest that the Select Committee obtain the views of the AER, AEMC and NEMMCO (National Electricity Market Management Co) before finalising its report.

3) The Snowy – a dual purpose Scheme

Finally, I would like to reinforce the dual purpose nature of the Snowy Scheme.

Prior to its corporatisation the Snowy Scheme was operated as an integrated water/electricity entity under the direction of Snowy Mountains Council, with a balance being struck between the use of the Schemes water for electricity versus its use for irrigation.

Prior to the formation of the NEM in 1998, electricity generated was onsold by State and ACT electricity utilities. With commencement of the Market, governments established Snowy Hydro Trading Pty Ltd, to trade the Schemes energy into the market independent of the electricity utilities. On corporatisation Snowy Hydro Trading activities were taken on by Snowy Hydro Ltd.

As outlined in my submission, the agreements corporatising the Scheme, particularly the water licence, are heavily weighted in favour of the use of water for electricity production and derivative trading rather than to optimise its use for irrigation, the environment and communities.

Since corporatisation the balanced approach necessary to protect all stakeholders in the Scheme has been lost whilst Scheme management, the Board and governments (by their acquiescence) have focussed on the electricity generation/trading business in the pursuit of growth and enhanced shareholder value.

This situation is unacceptable going forward when the management of water and its use will be the single greatest challenge facing the nation – governments must ensure equity in the use of the Scheme’s water and take a much greater interest in Snowy Hydro’s growth proposals and trading activities.

4) **Inquiry Appearances**

4.1) **Water**

I understand that the Committee will be speaking to Murrumbidgee and Murray irrigator bodies.

These bodies are end users and are not responsible for the management of the resource.

May I suggest that the Committee also obtain the views of the agencies responsible for managing the water resource, these being:

- o NSW State Water, and
- o Murray Darling Basin Commission (River Murray Waters)

4.2) **Electricity**

Snowy Hydro Ltd continue to maintain that it is necessary for them to grow the business and to invest in gas turbine plant and into other sectors of the National Electricity Market (NEM) in order to survive and remain competitive.

As Snowy Hydro already enjoys a very strong presence in the peak energy and derivatives sectors of the market their further growth and stronger presence may not be in the best interests of electricity consumers.

I therefore suggest that the Committee obtain the views of the organizations responsible for regulating and overseeing the NEM, namely;

- the Australian Energy Regulator (AER) which is part of the ACCC
 - the Australian Energy Market Commission (AEMC)
 - and the National Electricity Market Management Co (NEMMCO)
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