

Submission
No 68

INQUIRY INTO THE CONTINUED PUBLIC OWNERSHIP OF SNOWY HYDRO LIMITED

Organisation:

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Theme:

Summary

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SELECT COMMITTEE

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SNOWY HYDRO

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

Dear Committee Members

I would like to make the following submission to the Select Committee.

Snowy Hydro Limited (SHL) makes most of its income from the peak electricity market and its derivatives. According to NEMMCO (the National Electricity Market operator) in their "2005 Statement of Opportunities", this market is growing at 2.8% per annum in New South Wales and 2.1% per annum in Victoria. This amounts to more than 600MW of additional peak electricity capacity required per year in New South Wales and Victoria combined, the two states where SHL does its business.

The capacity of the Snowy hydro electric scheme is 3,756MW, and there is very little scope to increase this capacity. If SHL were to rely solely on the hydro electric scheme it would rapidly lose market share in the peak electricity market, and hence revenue, as competitors build new generation plant to match growing demand. Thus SHL has been expanding by adding two gas fired peak electricity plants, at Laverton and in the Latrobe Valley in Victoria. SHL must continue to expand its capacity simply in order to maintain its market share.

In addition SHL is faced with a reduction in electricity output of 11% due to environmental releases as a result of the Water Enquiry. SHL also needs to spend increasing amounts of money on operating, maintaining and renewing aging equipment.

This combination of falling income and rising costs would mean declining profits and eventually, losses. This is inescapable if Snowy Hydro does not grow.

A loss-making Snowy Hydro would be less likely to properly maintain its equipment; less likely to sponsor community facilities and events; more likely to shed jobs; and worst of all, more likely to be eventually sold at a fire sale price with no restrictions on ownership. Such a sad conclusion would betray all those who laboured to create this engineering wonder.

Snowy must expand simply to survive, by building new generating plant elsewhere. Snowy's current shareholders have categorically stated that they will not fund such expansion; there is a limit to debt which SHL is approaching; hence it must be publicly listed in order to raise capital.

Snowy also has the opportunity to diversify its business to reduce risks and compensate for loss of revenue, by moving further into retail or other sources of generation. This would enable SHL to compete with the likes of AGL and Origin Energy as vertically integrated energy companies. Without expansion SHL will be marginalised by these much larger competitors, further endangering its position.

On a personal level, I was inspired to become an engineer partly because of the tale of the Scheme, and I greatly respect the efforts of those who built it. Private ownership does not denigrate their work. Instead, private owners are more likely to protect their investment by operating and maintaining the Scheme the way it ought to be done.

Since coming to Cooma 18 months ago I have started a family, joined the committees of the local rugby club and branch of Engineers Australia, and become (I hope) a contributing member of the local community. I was attracted to join SHL by its future-oriented vision, as well as its awesome infrastructure. I believe if Snowy Hydro were not to expand, but instead rest on its laurels and thereby slowly decline, it would lose staff and struggle to attract high calibre new employees, who would not be attracted by being mere curators of a historical monument.

On the other hand, a growing, dynamic Snowy Hydro with an exciting vision for the future would attract more employees, increase local facilities, spend more money on local services and contractors, and greatly benefit the region.

Unfortunately this side of the argument was not properly explained before the decision to scrap the float. Opposition to the float was led by people unable to accept the present realities of a competitive electricity market, or by those who misunderstood the issue of the control of water.

I call on the Select Committee to recognise that the future for SHL, and the wider region, is less positive under its present ownership structure than it would have been if it was floated. In doing so the Select Committee must look again at the question of how best to allow SHL to obtain the capital it needs. In my opinion privatisation is the best method for this.

Yours faithfully
Richard Clarke