

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

Organisation: Snowy River Shire Council
Name: Mr Viv Straw
Position: General Manager
Telephone: 02 6451 1503
Date Received: 30/06/2006

Theme:

Summary

Ref: V Straw
Tel: 02 6451 1503

File: ED/06/7954
26 June 2006

Revd the Hon Gordon Moyes MLC
Chair - Select Committee's Inquiry into the continued public ownership of Snowy Hydro Limited
Parliament House
Macquarie Street
SYDNEY NSW 2000
snowyhydro@parliament.nsw.gov.au

Dear Revd Moyes

Submission to the Chair of the Legislative Council Select Committee's Inquiry into the continued public ownership of Snowy Hydro Limited

At its meeting on 20 June 2006, Snowy River Shire Council passed the following resolution, in support of Snowy Hydro Limited remaining in government ownership:

Council Resolution:	117/06
That Council makes a submission to the inquiry setting out its position: a) That Snowy Hydro Limited remains in government ownership and raises capital through investment bonds or franked debentures to enable it to play a dual role in the water and electricity markets. b) That the Governments allow Snowy Hydro Limited to access the real income of the Scheme to reinvest its income in diversification and infrastructure redevelopment. c) That council believes that the water releases for environmental flows are inadequate and need to be reviewed. d) That the Mowamba Aqueduct should be decommissioned permanently and that water flowing through the Mowamba Aqueduct be deducted from the 28% water flows under the current water agreement. e) That there be access to land ownership of Snowy Hydro Limited. f) That there be a secure system of water supply for non-urban areas.	
Moved: Clr Shumack Seconded: Clr Burke	CARRIED

Attached is Snowy River Shire Council's submission to the Legislative Council Select Committee's Inquiry into the continued public ownership of Snowy Hydro Limited. The submission gives a background to the issues, provides options for financing the organisation and also provides a framework to prevent the organisation being sold.

Richard Wallace, Mayor of Snowy River Shire Council and I have registered, with Ms Glenda Baker, our intention to speak at both the Committee's public hearing and forum at Cooma Ex-Services Club on 5 July 2006. Please contact me on the details below if you need to discuss further.

Kind regards

Viv Straw
General Manager
02 6451 1503
Email viv.straw@snowyriver.nsw.gov.au

Snowy River Shire Council Submission to the Legislative Council Select Committee's Inquiry into the continued public ownership of Snowy Hydro Limited

This submission addresses items within the terms of reference of the Legislative Council Select Committee's Inquiry into the continued public ownership of Snowy Hydro Limited. These are:

General Issues	2
Funding.....	2
Heritage matters	3
Access to land controlled by Snowy Hydro Ltd.....	3
Future capital expenditure requirements of Snowy Hydro Ltd in order to remain competitive in the national energy market	3
Water.....	6
Other Matters: the vision for this scheme	7
Conclusions	8

General Issues

There are clearly two ways of looking at Snowy Hydro Limited; as a producer of electricity and the insurer of the major producers in the grid, or alternatively as a provider of irrigation services with the ability to produce electrical power. Water is likely to become a strategically important commodity post climate change and with population growth, demands for potable water in urban centres will grow. Snowy Hydro Limited however should remain competitive within the current electricity market as a "clean green" provider of electricity and water and this will require significant capital input. Both of these positions have some merit. Snowy Hydro Limited is an important provider of electricity but it is also the guardian on behalf of the community of a very important water reserve.

In this regard, Snowy River Shire Council believes that it is the ongoing vision of the scheme that needs debate and review. Also the various governments are not adequately retuning the scheme profits (returns above Net Cost of Production) to allow it to grow as a sustainable entity.

Funding

Snowy River Shire Council is suggesting that; if additional external funding is required for this organisation: a system of bonds or debentures notes be created in two forms. The first of these forms would be a government guaranteed fixed interest investment in the organisation and the second form would be a floating value debenture note with the capacity to elect one or two members to the Snowy Hydro Limited board. These debenture notes would be marketed to the ethical investment markets. Snowy River Shire Council would recommend that the government

guaranteed investment notes are one third of the float and that the fluctuating notes would be two thirds of the float. Judging by the interest in the float for shares for this organization it is considered that the three governments would have no difficulty raising funds through this process. The fluctuating bonds could have a dividend and a reinvestment plan, just like shares. It might be a good idea to have dividends franked and tax credits paid like shares which can be credited to the next year.

Heritage matters

Snowy River Shire Council is of the view that the whole of the scheme should be listed under both state and federal heritage listings as it is an important icon in the history of Australia's post-war re-development. The Snowy scheme is an important engineering undertaking featuring a number of significant firsts in; tunnelling, rock bolting, dam construction and the speed of construction among other things. Several studies at the federal, state and local government levels attest to the importance of this scheme on a national and regional basis.

Access to land controlled by Snowy Hydro Ltd

Land adjacent to the lakes, not in the Kosciusko National Park, has traditionally been available to recreational users for; fishing, boating, swimming and passive recreation activities. It is the view of Snowy River Shire Council that this access should continue into the future and that access to the land should be managed by Snowy Hydro Limited on behalf of the government. In recent years Snowy Hydro Limited have constructed a number of visitor facilities around Lakes Eucumbene and Jindabyne. These include but are not limited to; boat ramps, picnic facilities and composting toilet facilities. The Snowy Mountains Hydroelectric Authority has traditionally policed unauthorised camping, littering and encroachments by neighbours across their land successfully. There is no reason why this type of activity should not continue into the future.

Future capital expenditure requirements of Snowy Hydro Ltd in order to remain competitive in the national energy market

Two groups of people are looking at the sale of the Snowy Hydro Limited across the great chasm that is created by their different paradigms. On one hand we have people who are concerned about the future of our most valuable asset, water: An irreplaceable and on the world's second driest continent, rare commodity. Demand for water has outstripped supply in natural and standardised engineering systems. When the Snowy Mountains Scheme was constructed in the 1950s and 60s, it was

envisaged that this great scheme would divert water from the abundant Snowy and Murrumbidgee rivers west of the great divide to open up that land for agricultural purposes. To assist in the payment of the scheme, huge turbines were put into the pipes to generate electricity. Whilst the theoretical debt is outstanding; the scheme has more than paid for its investment through increased agricultural production. Cropping, grazing, vineyards, and rice fields have been drought proofed as a result of the massive scheme. The Snowy Mountains Scheme was truly a spectacular irrigation and engineering feat that opened up drought affected moderate production land and turned it into high-capacity, agriculturally viable land.

As our population grows, cities like Sydney, Newcastle, Canberra and Wollongong struggle to provide their populations with adequate water. Over the next few years they will need to reinvent their collection and distribution systems, significantly simplifying the collection, use and distribution of water, incorporating water tanks and stormwater devices into new subdivisions and building structures and retrofitting existing suburbs. Demand for water will continue to increase for domestic and agricultural purposes. People living in the catchment of the Snowy know only too well how the landscapes change as water is withdrawn from them. But what this group sold us is the icon of the Snowy River and its need for water, the iconic scheme and the irrevocable cultural change that followed it. This is a small part of the overall picture: Future water demand is the sleeping giant.

On the other side of this great divide is a group of people motivated by the electricity market place and the commercial returns that a player can generate. In their view, this great scheme left our nation with a debt of nearly \$1 billion, which the production of electricity has not managed to pay off. This debt continues to burden an academic balance sheet. Corporatisation of the scheme began a small but significant change in the way that we look at this mighty Australian. At first it was important to look at the organisation as a “clean and green” electricity producer that needed to be freed up to play its part in the electricity market. Later this organisation needed to expand its strategically important electricity producing capacity. The organisation's modus operandi changed significantly so that now it is an electricity insurer protecting the large producers in the marketplace from the momentary peaks and troughs. The corporate organisation now needs to become more competitive investing in alternative energy production such as gas turbine systems.

The subtle change in our perception over time has gradually, cleverly, reinvented this great scheme in our minds so that it is no longer a provider of water with some

electricity production capacity: but, has become a major player in the electricity market with requirements to manage water as a by-product.

To quote Vin Good, past Commissioner of the organisation:

With respect to Snowy's \$6 to \$700M debt at corporatisation (now \$900M to \$1 Bn) as a result of SHL's borrowings for gas turbines. It was the financial methodology used by the Authority under the agreements with the States that caused the debt not to be paid off before corporatisation. Snowy's electricity generation and other electricity services created profits of about \$150M per year above its Net Cost of Production (NCOP). However those profits went to SECP, Pacific Power and ACTEW and they did not show them as coming from SMHEA's production. So what I am saying is that Snowy's debt would have been paid off more than four fold if the financial arrangement had been different from NCOP.

If SHL has made decent investments in Gas Fired power stations in Victoria we should see profit levels continue well above the \$150M per year achieved since corporatisation. In that case, one would wonder why SHL or its shareholders need capital from other sources for the company to continue successfully into the future

The second group want us to believe electricity capacity is the life blood of the scheme. More investment is needed to make the scheme competitive in national electricity market and to raise this it needs to be free of government intervention. Both have a good argument but neither have a monopoly on the truth. This is a change of vision that was made in the best interest of the company but not necessarily in the best interest of the nation. More importantly, the change of vision was made with little reference to the stakeholders, the people.

If the organisation needs to recoup its profits and be allowed to reinvest in itself and if it needs to diversify, it should be allowed to create a vehicle for diversification into other green energy systems such as wind, gas, tidal and hydro power. Such a vehicle could be a subsidiary that pays dividends to the parent company. But first the vision should be checked against national and state priorities.

To enable external investment in the scheme and at the same time keep it in government ownership it is proposed that the government develop investment strategies through two types of government instruments, bond or debenture systems. The first of these instruments would be a secure government guaranteed bond with a fixed interest over a period of time. The second type of instrument/bond/debenture however, would be marketed to ethical investment providers. This bond (or similar instrument) would work more like a share in the company, with its value fluctuating with the value of the company. These instruments/bond/shares would allow investors to put money in to the company in the

same way as shareholders would but without the direct ownership. It would be envisaged that investment in these instruments would have the same tax advantages as shares, pay dividends and be tax franked in the same way that shares are. It is also envisaged that there would be a dividend reinvestment plan and that unit holders in the company would be able to have one or two people (proportionately to equivalent share holding value, but not a majority) elected to the board.

The money invested in these instruments would be split in a one third government guaranteed bond or debenture and two thirds in a floating value instrument/bond or debenture system. The money invested through this system could be invested in a subsidiary organisation that develops alternative power generation sources from gas, wind and solar, tidal or other power sources. The subsidiary company would pay a dividend to the main organisation which would be used to supplement its income from existing sources. The whole system would need to be set up under a commercially viable model so that the existing infrastructure of the snowy scheme and any subsidiary organisations invested in by the scheme would allow for consistent investment and maintenance of the asset infrastructure.

Judging by the willingness of the community to invest in shares in the organisation during the previous sale process it is quite likely that additional organisations would be willing to sign up for bonds or debentures or similar instruments which are franked but do not have a guaranteed return on the understanding that the scheme is a “clean green” ethical investment organisation. In addition investors would not be labelled as selling out the country because they are purchasing a business that we already own. They would be investing in a government owned organisation to assist with its redevelopment and expansion and sharing in its fortunes.

Perhaps it needs a trading arm, but selling the capacity to control water to the market place is playing with fire.

Water

At the centre of the problem is the potential future demand for water on the driest inhabited continent on earth. Everything that we do with water needs to be carefully, thoughtfully and deliberately engineered to maximise human and environmental potential. Electricity can be provided by others; greenhouse emissions are an important consideration in that equation. Hydro power is part of the answer as are; gas, wind and tidal energy, but none of them stand alone.

These water management requirements are in place for 75 years. But it is not known what we will require of water in the next 10 or 20 years. Cities like Sydney have already outgrown their water supply and plan to grow by another million people.

The next step in this proposal was to sell this organisation to provide a commodity that is not in scarce demand, electricity, and can be manufactured by any number of players, having sold the capacity to impound, divert and manage the scarcest of our resources, water.

The biggest threat to our capacity to control water and provide it where it is needed is to tie it to the production of another commodity be it electricity or agriculture. Water from the scheme is low in salt and might be a boon to irrigators in providing water that doesn't add significantly to the rising salt problems they could be facing. But other demands will be placed on water as Canberra, Sydney and Victorian populations grow we will need to continue to harness water for urban development.

One issue is when governments need to make decisions about water redistribution, they need to be free of the requirement to compensate a large shareholder base for the loss of income from water and electricity production and to purchase the water that it "owns" at a reasonable cost. Snowy Hydro Limited will argue that any loss of water or power generation will lead to demands for compensation, but as a government owned entity it is less likely to resort to the courts if three governments seem to offer limited compensation at some time in the future.

Selling Snowy Hydro Limited would have closed this door for a long time. While all the water in the natural catchments is harnessed by the scheme and a small amount is released for "environmental flows" the scheme is greenhouse gas assisting but not green. Water for environmental flows should be purchased from irrigation savings.

Ethical investment funds might be an option here. A system as set out above might market water to various end users.

Other Matters: the vision for this scheme

The scheme is owned by the people of Australia who were not adequately consulted about the changes to the vision for this organisation. Instead the changes were undertaken as part of a corporatisation or rationalisation of the scheme to maximise its potential to return a profit. For the managers of the scheme to assume that they

could blithely change its direction and sell it off is an insult to our democratic processes.

The thing that we missed was the opportunity to debate a significant change in the emphasis of this organisation's *modus operandi*. The truth is that we need both the water and the electricity insurance and that without investment the scheme will not remain a key player and keep up with state of the art electricity production. Its capacity will fall behind. But water rights and potential for re-diversion should remain clearly in Government hands.

Some would argue that the electricity production capacity of the scheme is secondary to its over all purpose. Furthermore they would argue that other organisations can adequately come onto the market to provide alternative electricity production that is greener than the coal providers and still provides for rapid intervention into the market during peak distribution requirements.

At the turn of this century the Federal Government began the process of corporatisation and in so doing changed the vision of the previous century significantly. The purpose of the scheme was to redirect the great rivers of the Murrumbidgee and the Snowy west of the great divide to irrigate the fertile inland of Australia. This was not possible until hydro-electricity generation became an effective and efficient reality. That vision was harnessed in the post-war reconstruction of Australia and became the centrepiece for changing the Australian culture and economy.

The corporatisation of the Snowy Scheme significantly changed the emphasis of the scheme from an irrigation facilitator with the capacity to produce electricity to an electricity producer with the capacity to generate large income and divert water for irrigation purposes. The managers of the scheme now see themselves as electricity insurers; ensuring that peak electrical demand is supplied very quickly. This vision needs a rethink with the involvement of the people. Some will argue that the people don't understand the needs of the company, but does the company understand the needs of the people or just the best way to make the bottom line look good?

Conclusions

Snowy Hydro Limited is an organisation owned by the people of Australia for the purpose of managing water resources in the best interests of the Nation. In doing so, it produces a significant amount of electricity, and from the time of its conception was

a state of the art business. The people of Australia owe it to the organisation to maintain its position as a state of the art business, while remembering that our scarcest resource is water.

If this requires ongoing investment in the organisation; in the interest of ongoing innovation, we may need to invent a new finance and capital raising system and organisational structure to continue to keep the organisation ahead of the game.

With ever-growing populations and greenhouse gas emissions drying out our atmosphere, demand for water will continue to be a significant issue in the Australian political environment, it is imperative that this vitally important resource is effectively managed by Australia's governments and not private enterprise.

The Scheme needs to be protected through national and state heritage listing. Land surrounding the lakes should be managed on behalf of the people as a recreation resource within operational limits.