

Submission

No 7

PROPOSED SALE OF SNOWY HYDRO LIMITED

Organisation:

Name: Mr Lindsay Oates

Telephone:

Date Received: 28/05/2006

Theme:

Summary

Dear Sir,

Please find attached my submission to the committee regarding the above inquiry.

Regards,
Lindsay Oates

Mr L Oates

28th May, 2006

The Director
Inquiry into the proposed sale of Snowy Hydro Limited
Legislative Council
Parliament House
Macquarie St
Sydney NSW 2000

Dear Sir,

Submission to the Select Committee

I refer to the Call for Submissions, and submit the following comments for consideration by the committee.

These comments address Item a) in the terms of reference, whether the proposed sale of Snowy Hydro is in the public interest.

1. It would be cheaper for the people of NSW if the NSW government borrowed the money.

The proposed sale is not in the public interest because it will result in higher costs to the people of NSW.

The lowest cost option would be for the NSW government to borrow the same amount of money as it would receive from the sale. The NSW government has an AAA credit rating and would consequently be able to borrow the money at the lowest possible interest rate. No other organisation or company can borrow money at lower rates. Furthermore, the annual interest for the loan would be partially offset by the annual dividend paid by Snowy Hydro to the NSW government, ie the loan would be partly self-funding.

If the NSW government was to borrow this money there would be no nett debt, as the debt would be offset by the asset value of Snowy Hydro.

The sale of Snowy Hydro will result in additional costs to the state of NSW compared to the loan option by virtue of the legal costs, financial adviser's costs, and other consultants' costs prior to and during the sale process. After the sale there will be continuous ongoing costs due to the need to manage the water flows etc and legal costs for the resolution of subsequent legal disputes that are bound to arise. All of these costs can be avoided by simply taking a loan.

In summary, the sale of Snowy Hydro has all the intellectual merit of "selling the house to pay off the mortgage". As we all know this strategy is contrary to conventional wisdom and proven financial practice.

2. The sale of Snowy Hydro will cost NSW more.

The sale of Snowy Hydro will result in higher costs to the people of NSW because;

- i. The purchase of Snowy Hydro will necessarily involve large amounts of loan capital. As explained above, no private company can borrow money at the low interest rates that the NSW government can. Therefore the sale will be based on high interest costs.
- ii. The private owner of Snowy Hydro will need to make a profit.
- iii. The new owners will have to pay tax on the profit.

Consequently, for all three reasons listed above the price of electricity will need to be increased to pay for these additional costs. The people of NSW will be forced to pay these additional electricity charges.

3. The sale price is unlikely to reflect the true value of Snowy Hydro.

Snowy Hydro is the largest renewable electricity generator in Australia. At present, Snowy Hydro electricity only receives the same price as coal fired and other non-renewable energy based electricity. As the impact of greenhouse increases, the value of Snowy Hydro's renewable electricity will become valued as renewable electricity. There is potential for the value of Snowy Hydro's electricity to double in value when its value as renewable energy is fully accounted for.

Consequently, the sale of Snowy Hydro at this time is likely to appropriately value the electricity sale revenue, to substantially short-change the people of NSW as to the true value of Snowy Hydro.

4. 85% of NSW does not want Snowy Hydro sold.

A poll conducted by the Sydney Morning Herald in May 2006 resulted in 85% of respondents indicating that they do not want Snowy Hydro to be sold.

Yours faithfully

L E Oates