

**Submission
No 51**

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

Organisation:

Name: Mr Keith Montague

Telephone:

Date Received: 16/06/2006

Theme:

Summary

Keith Montague

13 June 2006

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

RECEIVED

16 JUN 2006

SELECT COMMITTEE

SNOWY HYDRO

Snowy Hydro Ltd – Select Committee Inquiry

The Director
Dear Sir or Madam,

I wish to contribute towards submissions to the above Select Committee Inquiry as below. I am a retired professional engineer who worked for Snowy Mountains Hydro-electric Authority for a period of 36 years from 1953 – 1989. At the time of my retirement I was the Senior Executive Engineer – Electrical & Mechanical. Prior to retirement I produced a ***“Long Term Maintenance Strategic Planning Report” which was entitled “Renovation and Upgrading of Hydropower Plant and Associated Works September 1987”.***

The report was approved for implementation by Snowy Mountains Authority, the Snowy Mountains Council and then by the late Senator Peter Cook (the Minister responsible for SMHEA). This report discussed plant and asset replacement policy, development of a strategic replacement plan, economic impact, development of long term planning in SMHEA, training for long term renovation of plant, plant surveillance and assessment, funding method and other related matters. This information is offered to your Committee to establish the fact that there has been a history of responsible engineering action towards achieving the highest levels of worlds best practice in reliability and availability of the SMHEA assets. Major overhauls, upgrading and asset replacement has been successfully managed within SMHEA and later by Snowy Hydro Ltd since report implementation which commenced in 1989.

My submission to your Select Committee follows.

Yours faithfully,



Keith W. Montague MIE Aust. CPE

SUBMISSION. _____ (Using the official Terms of Reference)

a) Public Ownership

To a very large extent there is an emotional attachment to retaining public ownership of the Snowy Scheme. Whereas emotion cuts little if any 'ice' with Politicians (unless it may affect their re-election) it is worth mentioning some of the reasons for this emotional attachment within our population.

- The Snowy Scheme provided employment for up to 100,000 people.
- Most were either single or young married couples living far from their parents and family support.
- Workmates & their families became the family/social support when strong bonds were formed during the construction period. These bonds have persisted to the present day. It was quite remarkable that for both the 40th and 50th Anniversary celebrations people from around Australia and even overseas returned to the Snowy regions to mark a common celebration of achievement.
- Every November for the last 37 years "Snowy folk" gather for a picnic in Canberra at Corroboree Park. The bonds of friendship have been maintained over the years for many many workers.
- A similar meeting is held annually in the Po River Valley region of Italy where workers still come together to commemorate their "Snowy Days".
- The leadership of Sir William Hudson was unique. His example inspired Staff, Workmen and Contractors. He is revered to this day as a great Australian – New Zealander.
- The Snowy Scheme was constructed under great physical difficulties and with intensity as regards achieving planned completion dates and under stringent financial controls ~ but ~ the Scheme attracted people who were achievers and held them. It showed all Australians what was possible ~ and bred self confidence in undertaking large engineering developments. To have been a "Snowy worker" carries a badge of pride.
- The scheme attracted high quality people who could see the potential for working on a huge project which was designed to be of benefit for all Australians.
- The Snowy Scheme was the beginning of multiculturalism in Australia. It was a resounding success.
- Out of the above and other factors grew a sense of personal 'ownership' which extended beyond the workers to the general public who were encouraged to visit the coal face during construction to see where their tax money was being spent.
- The above summarises the emotional attraction for keeping Snowy Hydro Ltd in public ownership. The 'Mums and Dads' were stung by investing in the Telstra sale and loss of share value. Generally speaking they do not like the idea of repeating a similar event through the privatization of Snowy Hydro.

(a) Impacts on the short and long term financial position of the Government including revenue and recurrent costs.

- The financial arrangements for repayment of loans to the Federal Government for construction of the Snowy Scheme are shown in the "Snowy Mountains Hydro-electric Authority Act – July 1949" and can be briefly summarized as "repayment of the loans on the basis of "Cost of Production" over an estimated period of 70 years. "Cost of

Production” of hydro-electric power consists briefly of – cost of salaries & wages, administration, materials, transport etc incurred for the operation & maintenance of the scheme, PLUS interest on capital loans, plus a component of capital repayment – scheduled over the 70 years.

- Raw figures from successive SMA Annual reports published would suggest an equivalent figure of Cost of Production of 2 cents per kWhr and an average of 5000 GWhr generated annually.
- The NSW and Victorian Electricity Commissions (also ACTEW) on sold Snowy power for approximately 8 cents (or more) per kWhr. Over the period since first generation this amounted to a bonanza for the respective Government beneficiaries of **billions** of dollars. This benefit is ongoing in terms of income to the States and Commonwealth who are now shareholders in Snowy Hydro Ltd – a corporatised body.
- The *short term impact* of privatization would therefore be the loss of significant income from a source which is operated at “arms length.” None of the three Governments concerned are required to play a major role in the administration or operation of Snowy Hydro Limited.
- The *long term impact* depends upon how the Management Policy of Snowy Hydro Ltd develops. Since Corporatisation, the power from the Snowy Scheme is delivered to the National Grid – at competitive rates.(not 2 cents / kWhr.) The true value is therefore being realized by S.H. Ltd when it is evident that annual gross income is now in the region of \$450 million ~ as compared with \$100 - 150 million range when operated under SMHEA “Cost of Production” rules. Snowy Hydro Ltd has been able to fund major plant upgrading from income and even major expansion from income.
- Comment has been made (attributed to the CEO Mr. Terry Charlton) that high refurbishment costs of Snowy plant will require an injection of capital. This is disputed since the high annual income can readily finance the major upgrading – which in any case carries an unnecessary expenditure (but a wise decision) to further maximize the output of existing plant at the same time as planned restoration.

(b) Future Capital Expenditure Requirements

- If as appears the case, Snowy Hydro Ltd sees advantage in expansion in fields other than Hydro electric power generation (e.g. gas turbine generation or say the purchase of Tasmanian Hydro & the Bass Strait link) then this may well require an injection of capital - **BUT** – privatization is not the only way to raise capital. **Other alternatives should be explored** – such as funding via the Commonwealth Futures Fund, where interest payments could provide a secure return for Superannuation requirements. Alternatively, by issuing Government Bonds which would be high security investments. (and so on – as other Financial Institutions would show interest.)
- Snowy Hydro Ltd sees danger in competition when it is already the major provider to the National Grid of peaking energy and derivatives. It now earns the major income from ‘insurance’ sources and does this very well indeed. Competition is one argument used to influence privatization & expansion.
- The push to sell Snowy Hydro Ltd was probably a combined push between an expansionist minded Board and CEO ~ and the three Governments particularly NSW which was cash strapped. In my view – this decision was outside the mandate of the NSW Government and a decision on the part of Snowy Hydro Ltd Board which could be (and was) challenged by the recent public action.

- Snowy Hydro Ltd could continue to operate profitably with a more conservative approach to expansion when it is unlikely to require extensive additional funding – or – it could pursue its more aggressive expansionist policy and still obtain funds in the market at favorable rates.

(c) ***Control of Water Regulation.***

- This is an area of great contention. Whereas claims were made that the rights of irrigators would be preserved – when any organization is privatized then the rights of shareholders will overrule the common good. Put simply – I do not believe that the present rights of irrigators as applying since completion of the Snowy Scheme could be guaranteed.
- Certainly, the present ‘minimum releases’ will be preserved in the short term. However, the “above target inflows” which are stored principally in Lake Eucumbene are a very valuable source of income and of insurance and are under the discretionary control of Snowy Hydro Ltd. Even now, these additional releases of water attract a premium – for power generation.
- There could be a conflict with irrigation interests in that Snowy Hydro Ltd may decide to discharge this water at times when the value of electricity generated is exceedingly high and profitable ~ but not at the optimal time for irrigators. If the irrigators wished to purchase this “above target inflow” water and the right to be released in time of extended drought, then they would be required to pay the same premium rate which S.H.Ltd could have obtained when industry demanded.
- Water is probably our most valuable resource for the ongoing well being of Australians everywhere. A NATIONAL approach is required to storage and the control of water regulation. Since SMHEA was entrusted in 1949 to manage the development of the NSW high country rivers and did so successfully ~ then politicians throughout Australia should show faith and their commitment to do what is best for all Australians in terms of management of water. All Australians have an interest in their families future water resource.
- The example of some States in the USA should be studied. Some USA States sold control of their water to private interests and are now trying to buy back the assets.

(d) ***Access to lands controlled by Snowy Hydro Limited.***

- Much of the Snowy Scheme is constructed within the Kosciuszko National Park this right being granted under the terms of the original SMHEA Act. If S H Ltd were in private hands, the potential for conflict could be high. S.H.Ltd access to their assets and or extension of assets on Park land has been amicably settled via consultation & both SMHEA & later S.H.Ltd have conscientiously endeavoured to respect the policies of the Park. I doubt private enterprise would be as accommodating to the Kosciuszko NP. The pressures exerted by private enterprise on the K.N.Park in the snowfields for further accommodation illustrates the point.
- The actual extent of land around the Snowy Hydro Ltd controlled lakes is not common knowledge. It is believed to be a certain distance above high water level. This is highly desirable land for development. In the hands of a privatized owner the temptation to realize on this asset would be immense – and the loss to public recreation and the aesthetic effects could be highly detrimental. Actual limits of shoreline land ownership should be very carefully established and preserved for all time against unscrupulous developers.

- In addition, the SMHEA resumed much land, some of which has already been sold off around Jindabyne, Khancoban and Talbingo. The land value amounts to millions of dollars. It is unthinkable that this should have been bundled into the 'bargain sale' of a privatized Snowy Hydro Ltd for a mere (estimated) \$3 billion return. At Jindabyne alone, "Snowy" land release is highly sought after and proposed sale of this land should be monitored.
- There is a ground swell of complaint from previous land owners who were compensated in 1950's valuations – particularly of land resumed and flooded. Some consideration should be given to these people whose lives were affected.

(e) Removal of disused Hydro infrastructure in National Parks

- During and after construction was completed in 1974, the SMHEA made a practice of 'clean up' of buildings etc which were no longer required for the operation and maintenance phase. I believe the Authority has always adopted a responsible attitude towards such work and I would anticipate any further work of this nature which is still required would be similarly carried out.
- The same applies to construction tracks etc. Construction of large civil works inevitably leaves scars on a landscape. The SMHEA have taken considerable care in restoration work and for example the roads between Cabramurra and Tumut 1 Power Station or Cabramurra and Tumut 2 Power Station show re growth right up to the edge of the bitumen.
- In the primitive alpine areas the restoration of aqueduct benches and access tracks, the regeneration of natural species date back to the 1950's when the SMHEA were at the leading edge of the conservation movement. SMHEA's Botanist Dr Phillips managed a plant nursery at Cooma Back Creek where she propagated seeds taken from the high country and returned as seedlings where regrowth is indistinguishable from the surrounding species.
- The SMHEA has always adopted responsible conservation policies and indeed has allocated considerable funds by way of compensation for the Kosciuszko National Park.

(f) Heritage issues

- A study of SMHEA and Snowy Hydro Ltd Annual Reports will show that an Environmental Management System was established as part of business operations which was required to attain international standards to ISO 14001.
 - As part of this policy, the business activity is required to co-operate with K.N.Parks and apply environmental impact studies where new work is to be undertaken within the Park boundaries. Aboriginal heritage sites are investigated by qualified persons.
-

(g) Any other related matters

The Corporatisation of SMHEA to become Snowy Hydro Ltd was conducted by the Governments of NSW, Victoria and the Federal Government. At the time of corporatisation in 2003 (?) the full repayment of loans to the Commonwealth had not been completed since the 70 year period of repayments had not been reached.

I do not believe that the outstanding SMHEA capital repayments were actually made to the Commonwealth and that the NSW 58% & Vic 29% "ownership" was gifted. (This should be investigated) If indeed this is the case, then I believe that the NSW & Victorian Governments do not have the right to sell 58% / 29% of Snowy Hydro Ltd & this would form the basis for legal challenge.

I see considerable merit in the Commonwealth either resuming or repurchasing 100% ownership in Snowy Hydro Ltd – leaving the Corporation to operate commercially as at present. (I personally proposed this at the public meeting held in Cooma attended by over 350 people and the motion was carried unanimously.) This way, the NSW and Victorian Governments could be reimbursed with the funds they sought from the sale of Snowy Hydro Ltd. They were presumably agreeable to forego the annual income for the injection of capital funds receivable.

A Snowy Hydro Ltd totally owned by the Commonwealth would preserve control of this important water resource in alpine NSW and provide a precedent for future national water regulation for the National benefit.

Keith W Montague

June 13 2006

