

**Submission
No 105**

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

Organisation:

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Theme:

Summary

30 June 2006

The Hon. Rev. Dr. Gordon Moyes
Chairman
Snowy Hydro Inquire – 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.
Supplement Submission by CM Talbot
Concerned Mother and Grandmother

Further to my submission please see attached two newspaper articles taken from Snowy Hydro Ltd website on the 29th June 2006. They are titled:

“Reason sunk in a torrent of emotion

The Prime Minister’s Snowy Hydro backflip is a depressing reminder of the dangers when governments cave in to populist hysteria” by Janet Albrechtsen (Australian, 7/6/06 Page 14). Personally I find such journalism to be truly dangerous as it is misleading, not well balanced and is ill informed on the technical aspects of the Snowy Scheme nor does it give the potential positive/negative impacts to the present owners (Australian citizens).

What is this lady talking about when she states “Howard knows that keeping Snowy Hydro in government hands is lousy policy. He knows the price of appeasing the vested interests, the sappy sentimentalists and the agrarian socialists opposed to the sale will be paid by future generations? It would appear, I believe, that this lady does not live in the real world if she believes what she has written, nor does she understand what many Australians from all walks of life think and believe. It is also of concern that governments appoint people with such bias to Government Boards such as the ABC.

“Howard’s snappy shuffle leaves Labor states, and Snowy Hydro, flat-footed”

by Stephen Bartholomeusz “Age 7/6/06 Page 12. Whilst this is a much more moderate article in my view, it still demonstrates a gross lack of understanding in regard to the issues and the impacts to the present owners, all Australian citizens.

The fact that Snowy Hydro Ltd – owned by the people and regulated by Government - has them on their own public website leaves a lot to be desired.

I honestly believe this is an appalling state of affairs and should be condemned as an abuse of privilege designed to mislead people and denigrate those who opposed the sale. The current management and Board are there to act for common good and without fear or favour in the best interests of the owners who at no time were asked if they wanted to sell and they just happen to include the people who opposed the sale.

I believe that the people who opposed the sale of Snowy Hydro Ltd, oppose the sale of all our essential infrastructure, control of our water and the erosion of the democratic rights and processes full stop. If infra- structure does need to be sold then approval to sell should be by referendum and that its time our politicians were more in touch, open and honest with the people.

The second area of my concern, is the control of free speech and whom employees of Snowy Hydro Ltd may associate with even outside working hours, with out fear or financial consequence.

You might say that this cannot happen but you must realise living in small communities is very different to life in a large city. People cannot easily up and leave their employment and expect to find other employment with similar remuneration etc without up-rooting their family as you might in a big city. Employee's salaries are related to performance agreements that include a very generous bonus system. I know many of these people personally, know they are really good people that give their best to the job and to their family.

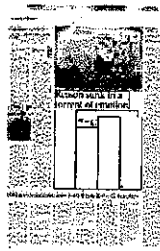
I also know that when it comes to business some things are truly confidential either on the grounds of privacy or commercial, this has never been a problem in the past and my husband and I respect this, we have not pressed any one to oppose the Sale let alone sought confidential information from Snowy Hydro employees, rather we believe people have to make their own mind up and stand for what they believe in.

At the time Max retired both he and I were given the honour and the privilege of being life members to the Cooma Snowy Hydro Social Club. For about 7 or 8 years now Social Club members and their families have come to our property for a "Bonfire Night" usually between 60 – 80 turn up and an evening of plain good fun is had by all, the Bonfire took place on the 8th June and as usual it was a very pleasant evening.

We had also been invited to their annual Christmas in July Dinner to be held on the 30th June and we usually attend the Cabramurra Ski Club Ball later in the year as well as periodic picture nights. However, we have now been told that it is inappropriate for the Talbot's to attend such functions. We also find people ill at ease should we bump into them in the street or where-ever. I can only believe that management of Snowy Hydro Ltd intends to isolate the Talbot's from an organization

and the people that were once such an important part of their life. Surely this is excessive control over the lives of people in a work force let alone one that is owned by the people, regulated by Government in a democratic country such as Australia? All because one expresses a different point of view in good faith and believing in common good.

Thank you for your time.



Reason sunk in a torrent of emotion

The Prime Minister's Snowy Hydro backflip is a depressing reminder of the dangers when governments cave in to populist hysteria



HE Howard Government's backflip on the sale of the Snowy Hydro scheme may have been politically astute and financially irrelevant, but it was philosophically unsound and economically foolish. And worst of all, it breathes life into that ubiquitous phenomenon: the collective letter.

First to John Howard's folly. Behind the political points he has earned for pulling the plug on the privatisation of Snowy Hydro, his decision is a depressing reminder of the dangers when governments cave in to mob hysteria whipped up on little more than the smell of an emotional rag. In this case, opponents began waving the "national icon" flag. And how do you spot a national icon? Propose that something public be privatised and, bingo, it becomes a national icon. It's a neat way of saying hands off without having to grapple with the pesky economic arguments in favour of privatisation.

Think back to the sale of the Commonwealth Bank of Australia. A national icon, to be sure. But that hardly justified it staying in government hands. This time around, when the Howard Government reneged on the sale of Snowy Hydro, it was clear that reason and logical thinking had been snuffed out by emotion.

Given the competition, it's quite a task picking the winner of the award for the most mindless emotional claim. But (drum-roll) it's a dead heat between Independent MP Peter Andren, who said the sale was wrong because the Snowy scheme is "the Vegemite of Australian infrastructure", and Industry and Resources Minister Ian Macfarlane, who fronted up on the ABC's *Insiders* program to

defend the Government's indefensible decision on the basis that Snowy Hydro is "an engineering feat... It's talked about not only in our history books, but in folklore".

Where to start? Vegemite is owned by US giant Kraft — yes, the evil foreign private sector — yet the black icky stuff is still flowing. And it's true that migrants did a fine job building the Snowy. As Howard said in his capitulation press conference, "it's part of the great saga of post-World War II development in Australia". But so what? Schmalzy talk about national icons is not the same as acting in the national interest.

In 2006, Snowy Mountains Hydro Limited is a business. In the late 1990s governments took the deliberate decision to corporatise it. To be efficient, it needed to be run like a business, a business that uses publicly owned water to generate electricity. It does not, and would not after privatisation, own the water in its dams. Like other businesses, it needs capital to maintain its assets and to build new infrastructure to grow in a competitive industry.

The sooner people realise that the most efficient and effective businesses are those able to tap the capital markets and subject to the forces of the free market, the better. Being labelled a national icon does nothing to secure the future of Snowy Hydro. On the contrary, now it is left scratching around for a future. Our great engineering feat may well be consigned to the history books and folklore as a national relic.

While governments enjoy grabbing dividends, it makes little sense for the Victorian Government to pump more Victorian tax dollars into a business based in NSW. Likewise, pouring

more tax dollars into a NSW business that also owns electricity businesses in Victoria makes little sense for the NSW Government. And it makes no sense for the federal Government to have money tied up in a corporate venture when, as Finance Minister Nick Minchin said last week, "it is better for governments to be devoting their energies and their funds towards their basic obligations in health and education and law and order". The sale made so much economic sense that we saw that rare bird: bipartisan support.

Until Howard caved in last Friday. At that moment, Snowy Hydro became an orphan. It will be starved of capital by owners who do not want to own it. NSW Premier Morris Iemma made that clear on Friday: "Capital is not going to come from the taxpayers of NSW." And it may be deserted by management, whose aspirations for autonomy, growth and, yes, share options, have been dashed.

Howard knows that keeping Snowy Hydro in government hands is lousy policy. He knows the price of appeasing the vested interests, the sappy sentimentalists and the agrarian socialists opposed to the sale will be paid by future generations.

Keeping the pork flowing to today's noisy mob of special interests means inefficient, overpriced services for the future.

No doubt he justifies his political pragmatism with his longstanding belief that it is better to be 85 per cent philosophically pure in government than to be 130 per cent pure in opposition. And there is much wisdom in this approach.

But only up to a point. The point at which pragmatism — or giving in to special interests — becomes counter-



productive is best illustrated by the French disease of capitulation.

Successive French governments have given in to vehement opposition from sectional interests so often they are now unable to take any decision that may adversely affect any interest group. As the French Government has found, once you start yielding to special interest blackmail, it's hard to stop. That caper has left France with impossibly rigid labour markets and unreformable pension and social security systems.

Of course, Howard has been responsible for so much sound policy that it is perhaps unfair to suggest that the odd piece of populist pork-barrelling is a portent of incipient surrender disease on a French scale. But it does encourage tomfoolery. Take Bill Heffernan's assertion that "this is a really good demonstration of democracy at work". If this is democracy, it is the ugly underbelly of

democracy where those who scream loudest get noticed.

Instead, it's a really good demonstration of the basic rule of economic reform: the costs (or in this case perceived costs) often fall heavily on a small but noisy minority. But the benefits of reform are invariably diffuse, enjoyed by a much larger, less vociferous group of people, called consumers. With less at stake individually, they are less passionate about reform. The Howard Government has committed the fatal error of economic Neanderthals by mistaking the lack of passion in that last group as justification to give in to the former.

But perhaps most irritating is the fact that Howard's backflip only encourages our collective letter writers to keep on writing. The apparent victory by the 57 assorted luvvies, political has-beens and political never-beens will make them think their sentimental jottings have policy

substance. These letters are blots on the political landscape that invariably feature artistes trying to prove they can do more than memorise scripts by signing up to something drafted by retirees suffering relevance deprivation syndrome.

One hopes that their saccharine superficiality has been carried prominently by newspapers such as *The Australian* as a cute reminder that collectivists are now reduced to the pathetic business of writing collective letters. But after Howard's surrender last week, they received a lullip. The Prime Minister's decision means that the Snowy Hydro is now truly a national icon: it symbolises the folly of allowing emotion to bushwhack rational economic decisions.



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Howard's snappy shuffle leaves Labor states, and Snowy Hydro, flat-footed



STEPHEN BARTHOLOMEUSZ

ONE only has to look at the red ink in the NSW budget to recognise what a nasty but effective political ploy John Howard's decision to pull the plug on the \$3 billion Snowy Hydro float last week was.

The deficit of \$696 million — and underlying cash deficit of \$4.6 billion — would have appeared far less reckless at what appears the peak of an economic cycle had NSW been able to get its hands on the lion's share of the float proceeds, probably not far short of \$2 billion.

Howard cited the "overwhelming feeling in the community" as the pretext for the Commonwealth withdrawing from the sale, although the decision probably owed more to the unrest in his own government's back bench than to broader popular opinion. Howard won't abandon T3 or

the Medibank Private privatisation because of any feeling in the community.

The Federal Government had nothing much to lose by walking away from the float. With a shareholding of only 13 per cent in the company, worth perhaps \$400 million, a government awash with cash and anticipating torrents more from T3 and Medibank could afford to.

NSW, with a 58 per cent share of the proceeds, and Vic-

toria (29 per cent) had already planned how to spend them. In the lead-up to elections in both Labor-governed states, Howard has landed a neat blow.

It would have been open to NSW, with or without Victoria, to go it alone by reverting to its Plan B — the float of its majority interest in Snowy Hydro. Presumably, NSW Premier Morris Iemma calculated the political risk of being seen to defy community feeling nine months out from an election (and with Alan Jones on the rampage) and decided the \$2 billion wasn't worth the angst and political risk.

It is worth noting that the "community feeling" wasn't all opposed to the sale. About 200,000 Australians pre-registered for the prospectus in only a fortnight. Given the full month that was planned for pre-registration, that number may well have topped 500,000 and the prospective proceeds would almost certainly have exceeded initial expectations. With the proposed restrictions on foreign ownership, the "iconic" scheme would have remained Australian-owned.

The abandonment of the sale doesn't remove the pressures — both fiscal and commercial — that led NSW to the decision to sell Snowy Hydro.

Despite some of the nonsense that was uttered in relation to the float — and which, unhappily, NSW did nothing to counter — the aborted privatisation had no adverse implications for ownership or control of the flows within the Snowy scheme. Those are controlled by NSW, with Snowy Hydro operating under a licence that dictates how the flows, including environmental flows, are managed. The privatisation had no implications for the water rights of other users. The governments could, had they wished, have imposed further controls on the company's management of the flows.

As my colleague, Alan Kohler, has noted, Snowy Hydro's business isn't primarily managing water, or even selling hydro-generated electricity. It is more of a financial institution, offering derivative products to energy retailers to insure themselves against spikes in prices.

It is, however, increasingly investing in non-scheme peak generation capacity — it owns one gas-fired plant in Victoria and is building another — as part of a strategy of diversifying its generating capacity away from the scheme and creating new opportunities for profitable trading and hedging of its own risk. It has also bought an



energy retailer as part of what is already a \$500 million or so expansion plan that has been funded largely with debt. Snowy Hydro has close to \$1 billion of borrowings.

As it has changed shape, Snowy Hydro's risk profile has been evolving and, had the privatisation proceeded, would

¶ In the lead-up to elections in both Labor-governed states, Howard has landed a neat blow. ¶

have evolved further as it built its east coast peaking capacity and looked to capitalise on its generating capacity by building a retail presence.

Presumably it will now have to scale back its ambitions and/or the time frame in which they can be realised. Unless its three

government shareholders amend the shareholders' agreement that governs its operations, it would appear unlikely the company would simply abandon the strategy.

That places NSW and Victoria — NSW in particular — in an awkward position. NSW taxpayers are effectively funding 58 per cent of the cost of Snowy Hydro's expansion — NSW's share equates to nearly \$300 million so far — and therefore are financing the building of generation plants in Victoria.

Snowy Hydro has expressed interest in bidding for the Queensland energy retailers the Beattie Government has said it will sell. NSW and Victoria wouldn't be happy to see their funds/capital being deployed in Queensland. Snowy Hydro's operations and ambitions are increasingly less aligned with

the government shareholdings and economic exposures.

As Snowy Hydro becomes an increasingly complicated enterprise and engages more ambitiously with the national energy market, the governments will be increasingly uncomfortable about their exposure to risk. NSW has particular, and painful, experience of derivative activity by government-owned energy companies.

Once they have their elections behind them, the new governments of NSW and Victoria (whoever they might be) will have to revisit Snowy Hydro's future and their role in its affairs, and perhaps commit a lot more time and effort into explaining the detail and merits of any fresh attempt at its privatisation — or else curtail its ambitions and its potential.

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