

**Submission  
No 90**

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

Organisation:

Name: Mr Vin Good

Telephone:

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Theme:

Summary

**From:**  
**To:** <snowyhydro@parliament.nsw.gov.au>  
**Date:** 26/06/2006 10:52 pm  
**Subject:** Submission to Snowy Hydro Inquiry

The Hon. Rev. Dr. Gordon Moyes  
Chairman  
Snowy Hydro Inquiry  
Parliament House, Sydney, NSW

Dear Sir

Attached is my submission to the Snowy Hydro Inquiry chaired by yourself. My submission is in Word format. I have indicated that if possible and appropriate that I would like to appear before the Inquiry when it visits Cooma later in July 2006.

I will forward a signed copy of my submission which will not arrive until some time after the closing date.

I can be contacted on this e-mail, address, or on my mobile phone ~~0418 425706~~ should you need to do so.

Thanking you in anticipation.

Yours sincerely

Vin Good

Mr VM Good

26<sup>th</sup> June 2006

The Hon. Rev. Dr. Gordon Moyes  
Chairman  
Snowy Hydro Inquiry - Parliament of NSW  
Parliament House,  
SYDNEY NSW 2000

Dear Hon. Rev. Dr. Moyes and fellow Hon. Members of the Select Committee,

**Inquiry into Continued Public Ownership of Snowy Hydro Ltd.**

Submission by Mr VM (Vin) Good, SFCDA, ACIS.  
Concerned Citizen & Retired Snowy Scheme Executive Manager

**Background**

I am certainly endeared to the National Icon the Snowy Mountains Scheme; the 100,000 people, from 30 different countries who built it, including all of the contractors; the 121 men who died for it during its construction and all who have followed in their footsteps to maintain and operate the Scheme since its completion in 1974.

The success of, and attendance at, the Scheme's 50<sup>th</sup> Anniversary in 1999, reconfirmed its National iconic status. The former Australian federal politician who promised "to keep the bastards honest", the Hon Don Chipp, at the Scheme's 50<sup>th</sup> Anniversary Photographic Exhibition launch, in Melbourne, summed it up when he said, "***there are three defining moments in Australia's history, the Eureka Stockade, Gallipoli and the Construction of the Snowy Mountains Scheme***". I certainly agree with those sentiments. The Scheme is a National Civil Engineering Wonder of the World as well as the birthplace of multiculturalism in Australia, and it *deserves to be treated with greater respect than has been shown to date, by Snowy Hydro and any of the three owning government's* in their hasty move to achieve privatisation. It took eight years to corporatise and looked like taking just seven months to

privatise; without any real debate in any of the Parliaments. This Australian heritage icon should be kept in Government ownership throughout its life.

I have been accused by some as being too emotional about the Scheme. They say there is no room in business for emotion. I can assure you from recent actions that it is clear that there is little, if any, sentiment or emotion shown towards the Scheme amongst the Board and Executive of SHL, and there would be even less if it were owned by a large multi-national company. The Scheme would simply represent a set of infrastructure assets, amongst a larger holding of assets and trading instruments, which could be driven hard to produce greater profits for shareholders in the future.

The sheer size and complexities of the issues involved in the operation of the Snowy Mountains Scheme, and in any potential privatisation of Snowy Hydro, militate against media coverage that could fully inform the public; particularly mum and dad investors, of the real issues involved in any proposed IPO or future Capitalisation needs.

For further background on the Snowy Mountains Authority, or Snowy Hydro Ltd, please refer to the submission to the Inquiry from Mr Max Talbot.

### **Terms of Reference**

#### **I(a) *Impacts on the short and long term financial position of the Government Including revenue and recurrent costs.***

Snowy Hydro occupies a unique position in the National Electricity Market, a position that cannot be easily emulated by others, due to the installed capacity of the Snowy Scheme of 3756 MW, its flexibility from 31 generating units in seven power stations and the quick start capability of those generating units. Therefore, it is reasonable to expect that it will remain

profitable into the foreseeable future, and continue to pay substantial dividends to Governments; whilst retaining the ability to maintain and modernise the Snowy Scheme's infrastructure which is essential as it is only possible to release water from the Scheme into the River Murray and Murrumbidgee River, in large quantities, through its hydro-electric generating plant.

In addition to the annual dividends paid to the three governments, it needs to be recognised that company tax paid by Snowy Hydro is returned to the States, by the Commonwealth, under the Snowy Tax Agreement. Consequently, if \$200M pa in profit attracted company tax of say \$50M, some \$29M and \$14.5M would be returned respectively to NSW and Victoria by the Commonwealth on top of any dividend paid by Snowy Hydro.

By deciding not to sell Snowy governments have foregone a significant one off payment that may mean increased borrowings or curtailed spending for one or more of them but those same governments will receive ongoing annual dividends and company tax rebates into the future.

Recognising that shares in Snowy Hydro were 'gifted' to the three governments at the time of corporatisation by the Australian people, who financed construction of the Scheme, it is reasonable to expect that under government stewardship it would be managed in perpetuity to the benefit of all stakeholders, namely; water users, electricity consumers, the environment and communities.

**I(b) *Future capital expenditure requirements of Snowy Hydro Ltd in order to remain competitive in the National Electricity Market***

In my opinion, the only thing that a corporatised Snowy Hydro cannot do that a privatised Snowy Hydro, listed on the Australian Stock Exchange, could do is to potentially raise large amounts of capital in a short time frame; provided that investors were convinced that the

capital would be invested wisely and that the returns would be less risky and/or larger than from other alternative investment opportunities. Consequently, if this proposition is accepted, it could be argued that the only real benefit from privatisation over corporatisation was the potential ability for the company to raise capital quickly.

To date, the government owned corporatised Snowy Hydro Ltd has shown itself to be a very profitable company that enjoys a position of significant market power in the National Electricity Market, particularly with respect to peak generation and electricity trading derivatives. Since corporatisation, Snowy Hydro has achieved annual incomes of up to \$440 million and profits before tax of around \$200 million. Taking into account its two new gas fired peaking power stations in Victoria, which cost around \$500M, in total, to buy and construct, it is reasonable to expect that following these investments, Snowy Hydro should be even more profitable in the foreseeable future.

Snowy Hydro has more than adequately demonstrated that it has the cash flow to maintain and modernise the Snowy Scheme, including its recently acquired assets, and with ongoing retained earnings has an ability to maintain a moderate growth strategy without deferring or reducing capital expenditure on traditional assets. As I understand it, Snowy Hydro's current dividend policy to the three owner governments is a requirement to pay dividends of 85% of free cash flow per annum. (I am not aware of the definition of the term free cash flow as it applies to Snowy Hydro's dividend policy). In 2004/05, with profits of \$148M, the total dividend paid by Snowy Hydro was \$110M. So it is hard to see how the Managing Director's prediction that "*without a high growth strategy Snowy Hydro is likely to wither and die*" can be accepted as fact. Furthermore, in addition to its retained earnings Snowy Hydro has access to depreciation of around \$40M pa for maintenance, asset replacement or to reinvest, etc.

Snowy Hydro must comply with the National Electricity Market rules for its electricity generating and trading business, and one of those rules requires that it maintain a BBB+ rating to be able to trade in the NEM. It is this rule that has limited Snowy Hydro's additional borrowings since corporatisation to around \$330m to \$350M; bringing its total debt to just under \$1 Billion. It seems reasonable to assume that if Snowy Hydro were not running close to its BBB+ credit rating limit, it would have borrowed more and acquired additional assets along the lines suggested by the Managing Director. However, a number of the company's stated wish list of acquisition items could hardly be called core business or be deemed essential to its future success. (E.g. a call centre, housing estate, electricity retail business in Qld).

Reasonable justification may exist for the acquisition of a gas fired peaking plant in the Sydney area, to reduce the company's electricity derivative trading risks and increase its trading capability in the Sydney region, in the case of transmission failures between the Snowy and Sydney Regions. However, in my opinion, this needs to be closely monitored to ensure that Snowy Hydro's acquisition of such peaking plant is not simply used to keep other competitors out of such plant ownership, thereby allowing peak generation prices and trading derivative prices to be forced up to the detriment of all consumers.

Perhaps a review of how Valley Power used to bid into the NEM prior to Snowy Hydro ownership, and how it is now bid in should give some indication of the effect, if any, on NEM prices since the change of ownership. If that power station is bid in now at higher prices than before, and generally operates for less time than it did before, this is likely to see peak prices increase and at the same time dissuade other potential operators from investing in additional peaking plant in Victoria because their profitability could be rather doubtful if Snowy changed its operating regime in the face of a new competitor.

Before any action is taken to assist Snowy Hydro to access additional capital sources, beyond those it has already accessed, the company should justify its claims for needing additional capital injection for further asset acquisition and show that such rapid acquisitions are vitally necessary to remain competitive and are not detrimental to the Scheme, the NEM or to electricity consumers generally.

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

***(i) The Snowy Water Licence***

Snowy Hydro's rights and obligations are contained in a 75 year Water Licence (with 71 years to run) administered by the NSW Water Administration Ministerial Corporation.

The Licence provides Snowy Hydro with rights over the collection, storage and release of the Scheme's water. The Water Licence central conditions include:

- Licence Term 75 years commencing June 2002
- Minimum annual releases, (1 May to 30 April) for irrigation;

1062 gegalitres to the Murray River  
1026 gegalitres to the Murrumbidgee River

a total minimum release of 2088 gegalitres – to be progressively reduced as efficiency gains are achieved or irrigation water purchased and environmental releases are then made to the Snowy River.

Environmental release to the Snowy River as irrigation savings are made:

21% of river flows – 212 gegalitres by 2012

28% river flows – 282 gegalitres, timing indeterminate – this additional 7% attracts compensation payment to Snowy Hydro for lost income.



Water stored in excess of minimum annual releases (known as above target water – up to some 300 – 400 gigalitres average annually) can be stored and released at Snowy Hydro’s discretion.

- The Licence is administered by the NSW Water Administration Ministerial Corporation.

Snowy Hydro needs to be seen and managed as a complex integrated water and electricity business, with water likely to be of increasing importance to many potential users in future.

### ***(ii) Cloud Seeding***

Snowy Hydro are in the process of conducting a cloud seeding trial to establish the level of increased water yield that can be achieved from increased snow falls, in winter, within the Snowy Catchment. The potential increased water yield is in the order of 70 GL or greater per annum. Max Talbot has demonstrated in his submission that cloud seeding, if proven successful, should proceed regardless of whether the additional water is treated as minimum releases or above target water or a combination of both. It needs to be remembered that cloud seeding was a Snowy Mountains Hydro-electric Authority initiative that commenced well before Corporatisation was considered by the governments; and that increased water yield will assist the community and the river(s) to which it is released.

### ***1(e) Removal of disused Hydro infrastructure in National Parks***

The Corporatisation Agreements provided for ‘former Scheme sites’ major (mostly tunnel spoil dumps) and minor sites to be taken over by National Parks and for Snowy Hydro to make a financial contribution of \$32.5M for their management/removal. However, it is understood that papers released to the NSW Parliament contained an amendment to the Water Licence that gives Snowy Hydro the right to remove Scheme infrastructure provided that it

does not impact on its ability to meet its licence obligations, and that the period of public consultation was waived. The reasons for this amendment are unclear and the fact that it was done in secret at the height of the Sale process is possibly of concern. The implications of the amendment are unknown but conceivably give Snowy Hydro the right to decommission infrastructure without reference to its stakeholders.

Snowy Hydro must justify why this amendment was necessary and it must not be allowed to stand without first being subject to full and open consultation.

As Snowy Hydro infrastructure in the National Park is situated on a Park Lease, I believe that the Lease demands that any disused infrastructure be completely removed after a period of time without use and the site be rehabilitated. This is an unbelievable expensive and difficult task if significant structures such as dams and power stations are involved.

It is recommended that any future licence amendments must be subject to the statutory period of public consultation.

**1 (g) *Any other related matters.***

***(i) Environmental Releases***

I am of the opinion that the Snowy Hydro Water Licence appropriately deals with annual environmental releases to the River Murray (70GL), Snowy River (212 GL) and montane streams (150 gigawatt hour equivalent in water terms) in and around the Snowy Mountains Scheme by the year 2012. Provided that the Joint Government Enterprise gets on quickly with achieving efficiency gains in the West, from the \$375M to be provided by the governments; then the appropriate amount of environmental releases should be made available annually so that Snowy Hydro can release those agreed quantities in accordance

with the Water Licence. The \$375M to be provided by governments is not subject to any CPI adjustment, so the later it is spent the less environmental flows it is likely to produce. Snowy Hydro must not be held accountable for non delivery of efficiency gains by the JGE or the governments. The total cost of providing these environmental releases is in the order of \$700M - \$750M when the governments' \$375M is added to the value lost by Snowy Hydro from its reduced generation and trading activities.

The local request for Mowamba Aqueduct to be turned out is nothing but a sideshow. Snowy Hydro has spent some \$90M upgrading the Jindabyne Dam and Outlet Structure, including a multi-level off-take, so that environmental flows released into the Snowy River are at the appropriate temperature and are appropriately oxygenated, etc, and not simply released from the bottom of the dam as was the practice in the past. Furthermore, in this day and age of high technical controls, I am sure Snowy Hydro could adjust the Jindabyne outlet, as required, so that releases mimic what is happening naturally in the River and its tributaries.

**(ii) *Snowy Hydro Annual Reports***

Snowy Hydro is in a unique position with respect to its Annual Reports, in so much as it neither meets the reporting requirements for other government businesses nor the reporting requirements for companies listed on the ASX. In my opinion, there is too much secrecy and commercial-in-confidence surrounding the Snowy Hydro Agreements with governments and certainly there is insufficient detail provided in its annual reports to appropriately monitor the operation and performance of the company. In future, Snowy Hydro's Annual Reports to governments should meet, as a minimum standard, all of the reporting requirements of an ASX listed company and be tabled in the three parliaments.

**(iii) *Snowy Hydro Support for Local Communities***

There is some reason to believe that Snowy Hydro's support for community activities and the local Shires may not be as generous in future, as it has been throughout the history of the Scheme. Snowy has always been a good corporate citizen and provided significant support for local activities. However, the Managing Director has made comments recently that the finances to support local community activities may not be available in the future. One may wonder why this should be the case. Is it because the shareholder governments have signalled a change or increase in dividend policy or an intention to block support for regional activities? Or is it more the company deciding that it will punish the local Shires in the future for supporting their constituents' desire to keep Snowy Hydro in government ownership? Reduced regional support by Snowy Hydro for either of these reasons would be very detrimental to the communities. Even more so, when one could argue that Snowy Hydro should save at least \$5M a year by not having to meet the requirements for companies listed on the ASX, which they would have had to do if they had been privatised.

*(iv) Snowy Hydro Board*

I am of the opinion that some of the current Snowy Hydro Board are inappropriate to its future operation as a government owned business. Consequently, I would like to see the Board reviewed and some members to be replaced by more appropriate members in the near future. The current Board appointed during the sale process has an over abundance of directors with private company expertise , energy and financial market experience and has no regional or water management representation. Recent Board appointments should therefore be reviewed by the shareholder governments with a view to having them replaced.

Mr Charlton told me, in a telephone conversation on 9 June 2006, that the dinosaurs who had stopped the privatisation of Snowy Hydro had kicked an own goal, and had effectively

destroyed the Snowy Mountains Scheme and the company, Snowy Hydro. He went on to say that he could not believe any rural Council could oppose having a top 60 ASX listed company HQ in its Shire boundaries and the local Councils should review what they had done to Snowy Hydro, and by implication they should realise the error of their ways. He didn't seem to acknowledge that the company already exists within the Shires' boundaries and that a change to privatisation was not a necessary precursor to achieving its location in the Shire(s). Some of his statements sounded a lot like sour grapes to me and also failed to acknowledge that he, his board and the three governments were well outside the comfort zone of many Australians in wanting to privatise and lose control, over time, of the ownership of this golden goose and respected Australian Icon.

Furthermore, recent statements by Terry Charlton, (Melbourne Age and Financial Review 15 June 2006) have confirmed once again that Snowy Hydro, under his management, still intends to pursue a rapid growth strategy and that this will be achieved, in part, by deferring capital expenditure on traditional assets, thus ignoring the integrated water/electricity nature of Snowy Hydro in the blind pursuit of growth and increased shareholder value.

Given these beliefs, and the fact that the sale is not to proceed (or that additional capital may not be made available for further rapid acquisitions), the continued presence of these Board members and Terry Charlton as Managing Director, may be questionable. If they haven't got, or cannot develop, an acceptable vision for Snowy Hydro in continued government ownership with lower growth expectations; then consideration should be given to replacing them, before they go on to achieve a self fulfilling prophecy and cause ongoing damage to the Scheme and then reply with the, "I told you so response".

**(v) *How Much did this Privatisation Fiasco cost the Governments and Snowy Hydro***

I believe it is in the Australian public's interest to know how much each of the three government share holders and Snowy Hydro spent on the aborted privatisation initiative. It would surprise me if they got any change out of a nine figure number. It would therefore be ironic if the same three governments and/or the company who wasted that sort of money, on this failed initiative then refused to provide ongoing community support for the local Shires, because the company was now too cash strapped to continue to be a good corporate citizen.

**(v) *Snowy Hydro Ownership Beyond 2077***

What happens when the Snowy agreements run out in 71 years time? Who will own Snowy? How will the water be released to the West if the Snowy Assets are not operational? Will rehabilitation of the assets, dams, power stations and tunnels have to be carried out? If so, by whom and who pays? There is a serious risk that the assets could be let run down at this time, if not before, unless there is an appropriate future path for Snowy Hydro beyond 2077.

In closing, I have contacted your office today and advised that I would like to speak to the Inquiry when it visits Cooma later in July 2006. If selected or balloted to speak, I would raise other issues not covered in this submission and/or provide clarification to items in this submission should that be necessary.

Vin Good

26 June 2006