

Investing : SnowyHydro legacy is energy and water politics

New power plants is a matter for investors not engineers.

City News
June 8, 2006

By now we all know the curtain has come down on the Morris lemma SnowyHydro vaudeville show. And what a show it was. Basil Fawltly could not have scripted a more entertaining, goofy, incompetent, comic and amateur production.

CityNews readers also played our part in this as we were the first to push the angle of getting the Future Fund to buy SnowyHydro and we were among the first to seriously push the parallels of SnowyHydro and Telstra. Indeed, escalating the debate into these forums is what really caught the attention of the investment media, which is a major battleground where these battles are fought and won, or lost.

We learned four important lessons from SnowyHydro. First, Governments that impose unpopular decisions without having the courage to let the electorate discuss them will pay a huge price. We should remember, while selling Telstra is unpopular, at least the Federal Government had guts enough to debate it – however spuriously – over several years, go to elections on it, and impose service agreements.

Second, while the investment industry can be a fantastic force for good in the Australian economy, we should never forget that the investment industry and the moneymen who run it are there to work for their investors' interests, not just their own. On this occasion, some of them sadly forgot this. Hint: Loud investors get listened to most.

Third, to fight these battles you must take it directly to the home turf of the power brokers, and openly and aggressively confront them. Moneymen are great with money, but they are generally autocratic and pathetically weak at public debate. Little surprise then that once the national media gaze was thrust upon them they wilted, though even I still expected a tougher display than they ended up giving.

Its fair to say, with respect, that Liberal Party Senator Heffernan from NSW is generally not regarded as the Government's most mighty rationalist, but if he can lead a charge against such overwhelming odds and prevail, then how weak must the pro-sale argument have been? Well now we know.

Fourth is that the Federal Labor Party has been shown to be impotent as it took the conservative Federal Government to step in and stop the sale. Indeed it was the so-called anti-privatisation state Labor parties in both NSW and Victoria that were the culprits. How bizarre then to hear claims from the moneymen that it was the Feds who backed down.

In its wake, the SnowyHydro sale process has left a powerful legacy. Not that there is a new dawn against privatisation, but rather that water and energy politics have finally emerged as a new force. As the Australian Property Council launch their campaign for a new dam for Canberra, this new paradigm means they had better ready themselves for the fight of their lives. Indeed, if they misplay their cards the rest of what I consider a fascinating development plan for Canberra will derail before their eyes.

There is no better evidence of this new paradigm than the "debate" we are now having into nuclear energy. Are nukes a solution for Australia? In part, perhaps. But so too

might thermal coal, wind, solar, advanced use of hydro, not to mention dozens of other possibilities.

The sleeper in this, at least for CityNews readers, is that we now know SnowyHydro operates at only an average 13 per cent electricity production capacity. For us (just a few kilometres from SnowyHydro home-base) there is therefore plenty of spare electricity production capacity to service our needs without ever having to be thinking about nukes.

Anyway, if SnowyHydro needs capital to build up its ability to do this, which was a big part of why they wanted to privatise, then because it averages \$150 million in profits each year, raising cheap capital in the investment markets will be easy. Indeed, there is such a short supply of quality bonds in Australia that I personally guarantee these bond issues will close fully subscribed quicker than the sale of Ashes cricket tickets.