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Mr Adrian Piccoli MP  
Member for Murrumbidgee  
State Office Block  
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Dear Adrian

### SNOWY HYDRO LIMITED

Thank you for your invitation to attend and address your public forum tonight in Griffith and the opportunity to discuss the "state of play" on the ASX listing of Snowy Hydro.

As we have explained to you, under the *Corporations Act*, until the Prospectus is issued both I and the Executive team at Snowy Hydro are prohibited from making public statements that directly or indirectly refer to the IPO.

The *Corporations Act* provisions effectively prohibit Snowy Hydro from making comment, especially about the future, until after the Prospectus is issued (and even then our comments must be limited to the contents of the Prospectus). The idea is that a company cannot "drip feed" selective information to the public and thus potential investors. Rather, investors should make an informed investment decision based only on the contents of the Prospectus.

In a recent meeting with the Australian Securities and Investments Commission ("**ASIC**") we were pointedly warned that our public statements are being monitored for any breach of the *Corporations Act*, which carries serious personal consequences.

However, you would also be aware that I have devoted a considerable amount of effort over a number of years to working closely with local communities and in particular our irrigator customers, listening to people's concerns and more recently addressing misplaced fears about the future listing of Snowy Hydro and what it means for them. I very well know and understand how much the irrigation communities rely on a close and co-operative relationship with Snowy Hydro and on the presence and commercial success of the Snowy Scheme.

What I can categorically state on the record is that I believe that I and my Executive team have demonstrated commitment and support to all of our stakeholders in the years since Corporatisation, particularly NSW irrigators along the Murrumbidgee River and the River Murray. The relationships we have developed with these stakeholders have grown stronger during the post- corporatisation period while Snowy Hydro has been conducting business exactly like a private sector company, even though we will not see this change formalised until the conclusion of the listing.

I believe that the Snowy Hydro company today, and since corporatisation nearly four years ago, has a demonstrably greater commitment to the asset and is also more innovative and has grown its skills base and improved and extended its assets. This track record is assurance of the future.

I believe the proposed listing of Snowy Hydro sets the Snowy Scheme on a new phase of development. As the NSW Government has previously stated, the proposed listing will allow the company to raise much-needed private equity. Without additional equity from our Government shareholders (which they have confirmed they will not provide) and continuing to have dividends paid to the Government shareholders, means that the Scheme will ultimately lose its importance and then its relevance, as the market and competitors expand and consolidate. With the electricity market growing, particularly the maximum demand for electricity as more air conditioning is used, if the company doesn't grow then the Snowy Scheme will have its importance in the market reduced and profitability could decline.


The listing on the Australian stock exchange is a transfer of ownership from effectively already "arms length" Government shareholders to what will be active and interested investors. The vendor Governments are highly aware of the need to have a broad and appropriately balanced share register that protects the strategic nature of the company and gives as many investors as possible an opportunity to participate.

It should also be remembered that at corporatisation the Scheme transferred from being directly Government owned to being a company managed by private sector management, operating under the *Corporations Act* and with privately financed debt and private sector creditors. From that time it had growth and dividend obligations to shareholders as it will in the future. Clearly the sky has not fallen in during the four years since corporatisation and the business has demonstrated its awareness of and responsiveness to the needs of all its stakeholders.

Also at the time of corporatisation the regulatory framework governing Snowy Hydro's water, land occupation, land use and other issues was established and "locked in". The framework does not vary at all on a change in upstream ownership of Snowy Hydro which will occur on listing. Snowy Hydro is also subject to the full range of laws of the land.

While I am constrained in what I can say at this time as explained above, I will make the following points that are relevant to Murrumbidgee irrigators and members of their communities:

- 1) **No change to water arrangements:** in terms of the structural arrangements that are in place protecting the security of irrigators' water entitlements, a change of ownership of the shares in Snowy Hydro will not alter the existing contractual, regulatory and legislative arrangements for the release of water for irrigation and environmental flows from the Snowy Scheme. In particular, the *Snowy Water Licence* that controls our water release regime is set by NSW Department of Natural Resources and ownership of Snowy Hydro is irrelevant to the decisions of the NSW regulator with regard to water release obligations on Snowy Hydro. Those obligations were prescribed back at corporatisation and have proven very workable for the irrigators during the recent difficult drought years, as well as providing increased environmental flows in the Snowy River;
- 2) **No change to Snowy Hydro's behaviour:** In terms of the drivers that dictate Snowy Hydro's behaviour within those structural arrangements, as I have noted above Snowy Hydro's commercial incentives and its rights in relation to water are unchanged by the sale. Since Corporatisation four years ago, Snowy Hydro has operated as a commercial business seeking only to optimise returns to its shareholders within regulatory arrangements that do not depend on governments intervening as shareholders to protect the public interest. Indeed, since Corporatisation there has not been one instance of intervention by any of the three Government shareholders in relation to water releases;

- 3) **No change to ownership of water:** Snowy Hydro does not own the water in its dams. We have only the rights to collect, divert, store and release water in accordance with the terms of our *Snowy Water Licence*. The water held in Snowy Scheme storages is owned by the State of NSW;
  - 4) **Snowy Hydro cannot sell water:** It follows from us not owning the water that we cannot sell water. We do provide risk management products, being timing of release guarantees to irrigators which they consider to be of special value and for which they pay a fee. This has been welcomed by the more commercially aware irrigators during the severe drought conditions of the last few years. Any arrangements for timing of releases to irrigators are consistent with the requirements in our *Snowy Water Licence*;
  - 5) **87% of Snowy Scheme yield continues to be allocated to irrigation releases:** The *Snowy Water Licence* and related inter-governmental agreements, including the *Murray-Darling Basin Act 1993* ("**MDBC Act**"), allocates some 87 per cent of the water yield of the Snowy Scheme to providing guaranteed minimum annual releases into the Hume and Blowering storages. These guaranteed minimum annual releases that are a legal obligation of Snowy Hydro (backed by criminal sanctions for directors and officers under legislation), are based largely on the arrangements that applied prior to Corporatisation. The notional annual quantities of 1,062GL for the River Murray and 1,026GL for the Murrumbidgee River are the same notional quantities specified under the previous Snowy Agreement which applied for over 40 years, and reflect the capability of the Snowy Scheme to continue to provide minimum annual releases through extended dry periods. Neither the prescribed annual release volumes nor the Snowy Scheme's capability to deliver those guaranteed annual releases will change because of a sale of shares;
  - 6) **Snowy Hydro's discretion in respect of timing of minimum annual releases does not adversely affect irrigators:** it is true that Snowy Hydro has significant discretion in relation to the within year timing of its water releases. This is deliberate to support its renewable electricity operations and commercial viability. Seven years of modelling during the corporatisation process by the Murray- Darling Basin Commission ("**MDBC**") and State water authorities demonstrated that the release arrangements agreed and implemented by the three Governments at Corporatisation did not impact on the security of irrigator entitlements compared to the pre- Corporatisation arrangements. This was largely because the reliability of irrigator entitlements on both the River Murray and the Murrumbidgee River is a function of the management of Hume, Dartmouth and other storages on the River Murray by MDBC and Blowering and Burrinjuck storages on the Murrumbidgee River by NSW State Water than it is of the timing of guaranteed minimum annual releases from the Snowy Scheme. Irrigator entitlements are not supplied directly to irrigators from the Snowy Scheme but, rather, from those large downstream storages operated by State water authorities and the MDBC which regulate both Snowy Scheme releases and River Murray and Murrumbidgee River catchment inflows. It is those entities that control releases downstream;
  - 7) **Snowy Hydro will not "hold back" water:** also in relation to timing of releases, it is important for everyone to understand that Snowy Hydro targets its electricity generation (and therefore its water releases) to periods of high demand in the electricity market. These typically occur in both winter and summer. Snowy Hydro is therefore commercially incentivised to release water at both of these times. Snowy Hydro is not at all incentivised to withhold annual releases until March/ April each year as some have suggested;
  - 8) **No change to Blowering arrangements:** the no change existing contractual, regulatory and legislative arrangements applies in particular to the arrangements for pre-releases from Blowering Dam. As has always been the case both pre and post Corporatisation, if Snowy Hydro calls on airspace in Blowering Dam it must allocate an equal volume of
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Above Target Water held in the Snowy- Tumut Development for callout by irrigators through DNR;

- 9) **Water operational planning:** I want to assure you that the water regulatory and legislative arrangements referred to above do mandate arrangements for water operational planning between Snowy Hydro and the State water authorities and the MDBC that again will be unaffected by the change in ownership of Snowy Hydro. The *Snowy Water Licence* (and an inter-governmental agreement) will continue to provide for the company to prepare an Annual Water Operating Plan, to be reviewed by the Water Consultation Liaison Committee, comprising representatives of the MDBC, the New South Wales (NSW), Victorian and Australian Governments and Snowy Hydro; and
- 10) **Flood liability:** in regard to releases in times of flood, a privatised Snowy Hydro will continue to have a commercial incentive to avoid a loss of its resources through spilling water and forced generation. Recognising that all storages are designed to be able to regulate only a specified volume of inflows and by definition any inflows above that capability will spill, it is noteworthy that, as a business already operating at arm's length from Government, Snowy Hydro has no legislative exemption from potential legal accountability for the consequences of its actions in this respect.

Finally, while there is maybe still concern at the event of change, I think some considerable comfort can be taken from the experience and behaviour of the company and of its management in the period since corporatisation. Certainly managements and shareholders can change over longer periods of time but so can Governments and their expectations of Snowy Hydro Limited. So even the current situation is no guarantee of "no change".

Adrian, I firmly believe the proposed listing of Snowy Hydro on the Australian Stock Exchange is a new and beneficial era for the Snowy Scheme and for downstream irrigation communities, which I hope can be embraced by all in a positive and constructive way.

Yours sincerely



**TERRY CHARLTON**  
Managing Director

