

“In Support of Progress” Newsletter

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The Power saga

Hydro Tasmania is in the gun. One week after posting a trading profit before tax of \$238 million, it has now announced an overall loss of \$248 million. The Opposition is all over it, demanding answers, the Greens are after blood, so what is going on?

First of all, it needs to be recognised that the entity is trading profitably. Monies in is greater than monies out. It is in the balance sheet (what is owned and what is owing) where the problem arises. Because the organisation has had to write down the value of its assets.

Three separate events have contributed to the write down of assets.

The first involves the abolition of the carbon tax. The loss of revenue derived from carbon credits makes the assets that produce that revenue less valuable. A matter for the State government to take up with the new Federal Government.

The second is the requirement by the State government to mandate a 5% reduction in the wholesale price. Again, the loss of revenue from such a move has as a consequence the requirement to reduce the asset value. When mandating such a move, one can only assume the government was aware there would be a consequential write-down of asset value.

The third is the lemon that is known as the Tamar Valley Power Station (or TVPS). This is a matter that should have been resolved by the Aurora Board years ago but wasn't. It should have been written off by the Aurora Board, but they failed to act. Instead they kept producing power at a loss, thereby keeping a liability on their balance sheet and causing an increase in the price of power to consumers, and a lessening in the value of the company. And instead of requiring Aurora to resolve this matter, the government has passed the problem over to Hydro, which has now resolved it.

In doing so, Hydro has been left with an increased debt burden – not of its choosing – which is significant enough for the Board of Hydro to now demand from government a review of its debt burden. In other words, “you have burdened us with this additional debt – now what are you going to do to relieve us of it?”

A very sensible question to be asking of the government.

For those in parliament to say they have not had a chance to review this matter in the past, or who are blaming Hydro for this situation, what a load of nonsense! The issue has been out there ever since the TVPS was purchased in 2008. It has been commented on previously (see eg, The Mercury – Opinion 3 Nov 2011, #1306), and has continued to fester. It is a matter of record that the Hydro Board has now moved to resolve the TVPS debacle. It is now a matter for the government to resolve the current debt arrangements that have been imposed upon the organization – **if** they can. Now there is a question!

The TVPS

The TVPS is probably a very nice power station. And no doubt, from an engineering point of view, it works well. However it is a lemon because:

- (i) the state paid too much for it. We spent \$100m to buy this half-built stranded asset from a failing company that was going broke. We spent another \$240m to complete the build.
- (ii) having built it the state then entered into an onerous take or pay gas contract. If the station was idle we paid (the "pay") and when it was running it cost even more (the "take").

Defenders of the decision say it was purchased in a time of drought. True! However, the issue is not so much whether it was purchased, but the nature of the purchase. I suspect it has a lot to do with bureaucrats negotiating commercial deals.

Radio Communications

Most of us were bemused to read recently that the Fire Service radio network is incompatible with the Police network, and that they could not speak to each other in the Dunalley fire. How could this happen? And even more so to note that it will take 5 years to fix. So, does that mean no more emergency situations can occur for another 5 years, until the networks can speak with each other? Not likely. It obviously needs to be fixed, and quickly. Without delay.

This issue goes to the heart of decision making within organisations generally, both private and public. To what extent does one delegate, allowing "managers to manage", and to what extent does one centralise. Line management versus central control continue to be issues of moment within organisations. Matters such as purchasing policy, property management, HR and IT require constant attention to ensure an outcome that benefits the entire organisation, and not just its individual "bits". There is obviously a lot that needs to be done in this area – as a matter of urgency - to ensure a more effective and efficient public sector. If there is to be delegation, then there must be some pretty clear guidelines. It would appear this has escaped our present PS mandarins.

A certain Development Application

Readers would be well aware that I have been a vocal critic of the overly prescriptive nature of DA's and the planning process generally. So it might come as something of a surprise that I now question a decision that was made to allow a certain project to proceed. The "blue house" in South Hobart stands out in the urban landscape (see attached photos). Half-built and derelict, it has been a topic of conversation for those who live nearby and those who have travelled down the Southern Outlet over the past three years.

Apparently the height is above that allowed in the building permit, the owner cannot be contacted, the building does not comply with building standards and the Council is powerless to do anything about it. As Council's Senior Legal Adviser has written recently:

Council officers will continue to encourage the owner to pursue the completion of the house as soon as possible notwithstanding the absence of any statutory powers to force such an outcome.

What a statement! We establish a system that inhibits and prohibits responsible development, and yet when there is a clear breach, we are powerless to do anything about it. There is no suggestion the building has any architectural merit. It stands as mute testament to the need to overhaul our planning laws.



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