

1951-52
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VICTORIA

STATE ELECTRICITY COMMISSION OF VICTORIA

INTERIM REPORT ON OPERATIONS

FOR THE

FINANCIAL YEAR ENDED 30TH JUNE, 1952.

PRESENTED TO PARLIAMENT PURSUANT TO SECTION 35 (b) OF STATE ELECTRICITY COMMISSION ACT No. 3776.

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State Electricity Commission of Victoria

POWER AND FUEL DEVELOPMENT

As the Commission's Annual Report to Parliament will not be available until later in 1952, the following interim report of the year's operations and future outlook is presented so that both Parliament and the general public may have before them the actual facts which, under present circumstances, the Commission feels it owes to the people of Victoria in view of recent criticism and several mis-statements made publicly.

OPERATIONS FOR 1951-52.

The sound financial position of the Commission is reflected in the result of operations for the financial year just completed.

	£
Total Income	16,333,663
Total Expenditure	16,124,453
Surplus for year	209,210

(Subject to Audit.)

Full provision has been made for Depreciation, Sinking Fund, and also for £441,777 in respect of charges accruing because of deferment of capital works.

The Commission's services are charged to consumers at cost; as from the 1st July, 1952, electricity tariffs were increased by, roundly, 20 per cent., to provide an additional £3 million to meet increased costs arising from—

	£
(a) Fuel (increased prices and greater use of black coal and oil)	1,500,000
(b) Basic wage adjustments	1,000,000
(c) Increased capital charges	650,000

Thus, while no large surplus is anticipated for 1952-53, adequate revenue to meet current costs at higher levels will be available this financial year. Indications to date are that the financial result will be satisfactory, provided there are no exceptionally high increases in cost of living and other charges.

Notwithstanding the recent increases in electricity charges, rates to-day are more favorable to the consumer in Victoria than in any other State on the mainland. (Electricity in Tasmania is cheaper, as it depends solely on hydro-generation under satisfactory conditions for water power development.) Allowing for the different currency values, the overall average rate in Great Britain is about the same as Victoria, while in the United States of America this rate is considerably higher than in Victoria.

PROGRESS OF LAST DECADE.

During a most difficult ten-year period of war and post-war re-establishment, Victorian electricity and fuel production, sales, and the connexion of new consumers have enormously advanced.

	1941-42.		1951-52.		Increase.
	£		£		%
Revenue	5,153,649	..	16,333,663	..	217
Sales of Electricity (million kWhs.) ..	1,074	..	2,238	..	108
Number of Consumers at date ..	292,341	..	443,014	..	51
New Consumers connected ..	7,968	..	27,332	..	243
Total Farms connected at date ..	6,785	..	19,953	..	194
Additional Farms connected ..	375	..	2,381	..	535
Briquette Production (tons) ..	413,450	..	568,252	..	37
Brown Coal Production—Yallourn (tons) ..	4,702,725	..	6,480,723	..	38
Brown Coal Production—Yallourn North (tons)	32,538	..	1,007,213	..	—

During 1951-52, there was an all-time record in the connexion of new consumers. Of the 27,332 connected, 19,000, or 75 per cent., were in country areas, and the 2,381 farms connected exceeded by 30 per cent. the previous record for new farm connexions achieved only the year before.

While, for the first year since the war, ample material supplies were available, it was only by the co-operation of country consumers in the "self-help" scheme that sufficient finance was available to achieve this result. Arrangements have now been made to credit interest on contributions by consumers as from 1st July, 1952.

CAPITAL EXPENDITURE AND RESERVE FUNDS.

The fixed capital expenditure at the 30th June, 1952, was £123,886,390. Capital liabilities amounted to £117,048,986, comprised principally of loans raised by the Commission and advances from the Victorian Government. Reserve funds totalled £20,620,482, including Depreciation and Sinking Fund Reserve of £18,123,796. (Subject to audit.)

PROGRESS OF LARGE AND EXTENSIVE CONSTRUCTION PROGRAMME.

Since the war, the Commission has installed approximately 100,000 kW. of new generating plant—equal to about 25 per cent. of the total installed capacity of the system seven years ago. Meantime, annual electricity production has increased by 80 per cent. During this period, a vast amount of effort and money has been expended on a huge programme of major works, the results of which will be evident during the next eighteen months, when, provided the approved loan raisings are forthcoming, an additional 200,000 kW. of new generating plant—a 40 per cent. increase—will be added to the State supply system.

Inclusive of these additions, the Commission has on order and aims to install by the end of 1958, nearly 750,000 kW. of new generating plant—or approximately one and one half times the present installed capacity. Again, however, the rate of progress is dependent entirely upon finance. This programme is designed to overtake the leeway of war years and the subsequent rapid growth of electricity requirements. Unfortunately, there has been a mishap to the new 38,000 kW. generator, which was placed in service at the Richmond power station at the end of last month. The responsibility for repairs—which it is estimated will take up to three months—rests upon the contractors, as the plant was still in their hands.

Other major additions to the inter-connected system due for completion during the next eighteen months are as follows:—

Yallourn Power Station.—One 50,000 kilowatt generator due to be in service late next year. (With three more 50,000 kilowatt generators due to follow at approximately yearly intervals.)

Kiewa Hydro-electric Undertaking.—New 60,000 kilowatt underground power station—with two of its four generators in service next year, the remaining two to be completed by the middle of 1954.

Newport Power Station.—New 30,000 kilowatt frequency changer and additional steam plant to be in service within the next few months.

Geelong "B" Power Station.—Entirely new 30,000 kilowatt steam-electric power station, additional to Geelong's existing power station, being built and to be in service by the end of 1953.

Ballarat "B" Power Station.—Entirely new 20,000 kilowatt steam-electric power station, additional to Ballarat's existing power station, being built and to be in service by the end of 1953.

Shepparton Diesel-electric Power Station.—Due for completion in 1953. Nine generators with a total installed capacity of 10,000 kilowatts.

Warrnambool Diesel-electric Power Station.—Due for completion in 1953. Six generators with a total installed capacity of 5,000 kilowatts.

Spencer-street Power Station (Melbourne City Council).—Two generators, one of 30,000 kilowatts, the other of 15,000 kilowatts, to be in service during 1953. (Although owned and operated by the Melbourne City Council, this power station forms part of the State system, and extensions are therefore of benefit to consumers in all areas served by the State system.)

All these new power stations will be linked with the inter-connected system and will feed into a common pool which now serves 587,000 consumers through a network covering approximately two-thirds of Victoria. Peak load stations are designed to boost the system at points near the main-load areas.

In addition, 10,000 kW. steam-electric power plant is being erected at Mildura to supplement the local plants for regional requirements.

TEMPO OF MAJOR WORKS PROGRAMME.

The Commonwealth-State Consultative Committee on Electric Power, which first met in August, 1951, and reported to the Prime Minister finally on 5th December, 1951, stated that it was a "regrettable fact that the time involved in bringing electric power projects into operation is now much longer than formerly." Notwithstanding this, the Commission had responded to the request of successive Governments and accelerated its major works as rapidly as practicable; also to the Prime Minister's urgent warning, through this Committee, that the period for defence preparation was short and acceleration was, therefore, imperative.

Additional plant, materials, accommodation, and personnel were then being assembled to meet a greatly increased tempo on the major schemes and other works.

To carry out this programme within a five-year period to June, 1956, the following expenditure was endorsed by this Committee as being practicable and as representing the minimum provision required for the objective of meeting the unrestricted demands of the community and to provide margins adequate for normal operating contingencies, having regard for the strengthening of the economy to meet a defence preparations programme :—

	£
1951-52	51,880,000
1952-53	47,320,000
1953-54	37,480,000
1954-55	32,000,000
1955-56	32,000,000

The Committee also stated that "all the works included in the programme are necessary" and "if the needs of the nation are to be met, there is no way in which this estimated expenditure can be reduced". Conversely, if the finance is not available, the nation's needs must lag.

Against an original estimate of nearly £52 million for the financial year 1951-52, the Commission's loan authority was restricted to £39 million, but it was possible to raise only £32 million (£9 million of which was by State Government advances), and the prospect for 1952-53 is that the revised target of £25 million may not be available. Thus, works programmes have had to be cut in keeping with the limited loan moneys available.

At Kiewa, work has stopped on the two main dams on the Bogong High Plains, on which the scheme was fundamentally based; other construction work has stopped except for the No. 4 power station and associated works now in an advanced stage of development. Also, the Commission is committed to a contract with a French firm for the construction of No. 1 tunnel.

At the Morwell Open Cut and Briquetting Project, day labour by the Commission has ceased, except that necessary for providing services for the limited works being undertaken under contracts placed prior to loan cuts. The contract work includes the foundations for the first two briquette factories, boiler and turbine houses, erection of three dredgers, and one overburden spreader. Progress has been slowed down tremendously, and, when the contracts have been completed, the Morwell Project is likely to be brought to a standstill. The planned dates for the four factories, with an annual output capacity of 2,600,000 tons of briquettes, which were 1953, 1954, 1956, and 1958, respectively, have had to be deferred and will be delayed by at least two years, and possibly longer.

Despite efforts being concentrated on those works nearing completion, generally all construction works have been retarded to some extent. As previously mentioned, it has only been possible to make reasonable progress with rural extensions by prospective consumers under the "self-help" scheme contributing 50 per cent. of the capital cost.

SHORTAGE OF LOAN FUNDS TO MEET CONTRACTUAL COMMITMENTS.

Planning for large-scale electricity and fuel projects must necessarily involve commitments over periods up to 5-6 years ahead. But there is no means in Australia to-day of a State instrumentality ensuring that sufficient funds will be available for the uninterrupted manufacture and erection of these large plants or construction of projects. While the physical works have to be planned on a long-term basis, the finance, per force of circumstances, is planned for less than a year ahead; hence the Commission, with the Governments of the day, has been forced to make considerable contractual commitments in advance so that those projects sanctioned by Parliament could be undertaken.

The present situation is that the Commission, if it is to meet payments to contractors which cannot be deferred and maintain even a very low tempo of construction work in the field, must have at least £31 million during the current financial year, which was still well within approved loan raisings, but, unfortunately, unlikely under the present outlook to be attained, unless with special assistance. Heavy reductions in personnel have been made, plant accumulated for the earlier construction programme has been, and is being, sold, and the organization has been adjusted to a low rate of capital spending.

DEFERMENT AND CANCELLATION OF CONTRACTS AND DELAY IN CONTRACT PAYMENTS.

Apart from securing the loan funds, the vital element in the plan is the endeavour to spread evenly over the next three financial years the total outstanding contract commitments on capital accounts of now £47 million (which figure is increasing under the rise and fall clause of the contracts). Cancellations and deferments arranged for 1952-53 represent a relief this year of £6 million, those still under negotiation represent £11 million contract liability. These latter negotiations all must be successful to achieve the desired saving, but the most that the Commission can hope for is another £5 million relief this year, which means that it must find still another £6 million in 1952-53 for its contract commitments, or arbitrarily defer the payments at bank overdraft interest. At this stage, the Commission, in addition to arranging cancellation of certain contracts and deferment of others, is negotiating with contractors and suppliers of capital goods on the basis of them accepting payment this year of 50 per cent. and deferring 50 per cent. for the following year—the deferred payments to carry interest at the rate at which the contractor or supplier can secure bank or other financial accommodation. The aim is to secure a deferment until the next financial year, or later, of approximately £11 million which would otherwise have been paid during 1952-53. Details of the contractual commitments and the shortage of loan funds have been placed before the State and Commonwealth Governments, and the Commonwealth Bank has been apprised of the situation, which could have far-reaching effects outside the Commission's ambit of operations. While the Commission greatly appreciates the action of those contractors who have deferred deliveries or contract payments, it also appreciates fully the difficulties associated with the request that it has had to make to its contractors.

CONCLUSION.

There can be no question of the soundness of the Commission's planning. On the operational side, its revenue (the lowest per kilowatt-hour on the Australian mainland) fully meets annual operating and maintenance expenditure. On the other hand, long-range capital construction projects are meeting with unforeseen times of most difficult finance, and the Commission will be seriously embarrassed unless loan funds are more freely available to meet contractual commitments in respect of its capital works.

The limits set by the Loan Council obviously would have greatly affected the tempo of our planning, but would not have embarrassed us with our contractors. It is the extreme difficulty facing the Commission of raising funds to the limit set under to-day's market conditions—this is the crux of the problem.

The problem cannot be solved in retrospect, but ways and means must be found to meet those commitments which cannot be deferred. The Commission's planning has been designed to meet a steady 8 per cent. per annum compound increase in the demands on the State system, and, at the same time, to secure a large-scale expansion in briquette production, which would not only free Victoria from continued shortages of solid fuel, but would also ensure major economies in the cost of electricity production and to general industry.

When Parliament approved the major projects for which many of the commitments had been entered into, they were whole-heartedly endorsed by all—as recently as last month the Premier confirmed that it was well known that the S.E.C. had been directed by various Governments in the past to undertake these works.

Also, in January of 1950, the then Premier, in expressing the Government's concern regarding the availability of electricity, advised that, as related to the policy of development, the Government wished it to be understood “that the programme for the development of the supply of electricity must be speeded up regardless of cost”.

Unfortunately to-day the position is completely changed, and the dominant factor in progress of these developmental works is one of cost, in that the Commission is unable to secure sufficient loan funds, and the time of completion of the power stations and other projects referred to herein will be solely dependent upon the amount which is available to the Commission.

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A review of this nature would not be complete without a very sincere commendation of those men and officers of the Commission who have spent themselves during the war and the post-war years in maintaining, building up, and re-establishing the State supply system to a point where now—provided money is available for new projects—it is hoped Victoria has attained complete respite from irksome electricity restrictions.

R. A. HUNT,
Chairman.

15th September, 1952.