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Hi Josie!

Yesterday, at the hearing in Nelson, a question was put to me by the Chairman of the Board. Whether I considered that a company embarking on a major hydro-project should be required to place a bond to ensure reversibility? I replied that I had no opinion on that point. Subsequently, I have had time to consider the question. I doubt that my conclusion is anything other than that which the Board would have reached – but for what it is worth, here it is.

Bonds seem to me appropriate for small scale projects carried out by private individuals and small to medium sized companies, which can be ephemeral in nature. Where we are talking about significant public companies listed on the Stock Exchange, the situation is different.

The cost of reversing the type of large-scale projects, which they are likely to undertake, could be considerable. Asking them to tie up such significant sums of their shareholders' money in such an unproductive bond, would not be in the interest of the national economy and would place an unnecessary brake on such projects. Typically, the companies capable of major undertakings (such as the proposed Wairau hydro-scheme) have a much wider spread of assets and resources than that invested in the single scheme. They are therefore unlikely to go into liquidation in order to avoid paying for the reversal of a single project. A legal contract should be quite sufficient to ensure their compliance when the time comes.

However, the fact that this liability will exist at the end of a project's operational life-span, will remain as a liability on the company's balance sheet and thus have a debilitating effect on its share price. This will give more pause for thought before a company's directors embark on such projects and should make them more cautious of the extent of the risks of the unknown consequences they are prepared to inflict on local communities. Such a damper on macro-projects could not help but increase the competitive advantage of the more readily reversible micro-projects for which the risk factors are more easily quantified.

Best regards,

Hugh Steadman, for Save the Wairau River Inc.

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