

UNEDITED TRANSCRIPT**THE PARLIAMENTARY STANDING COMMITTEE ON PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON THURSDAY, 4 MARCH 1999.****HEC. SPECIAL DIVIDEND**

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Mr PETER RAE, CHAIRMAN, AND **Mr MARK KELLEHER**, GENERAL MANAGER, CORPORATE, HYDRO-ELECTRIC CORPORATION, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIRMAN (Mr Schulze) - Thank you very much, Mr Rae and Mr Kelleher, for appearing before our committee on this inquiry. Your appearance here is not new, of course; you have been before our committee numerous times before and we do appreciate the cooperation and openness that you give us when you appear. You would be familiar with our procedures here generally. We are under a different act than might have existed previously, which gives the committee greater scope and capability for looking at statutory authorities in general.

Yesterday we had Aurora and Transend in giving us evidence in relation to their operations, and today of course you are central to our inquiry. We have communicated to you and you have made a submission to us in relation to your ability to pay the \$40 million special dividend now and into the future. What I would invite you to do is perhaps give us an overview of the situation, perhaps commenting on how things have gone since disaggregation and covering the financial circumstances that enable you to meet or otherwise this \$40 million special dividend.

Before each of you speaks in the first instance, if you would give your name and position for the sake of the record and Hansard. If you are comfortable to operate that way then at the conclusion of your address members of the committee will ask you questions.

Mr RAE - Thank you very much, Mr Chairman. As you mentioned, the Hydro is not a stranger to your proceedings but we are always happy to have the opportunity to be able to explain what is happening and to answer any questions.

I appear as chairman of the corporation and my full name is Peter Elliott Rae. My address is 230 Penquite Road, Launceston, and it is in that capacity as chairman which I appear. I appear with Mr Mark Kelleher of 12B Solana Place, Sandy Bay, who is the General Manager, Corporate, of the HEC. I hand in the names and addresses so that it saves time.

The position, Chairman, is that your inquiry, as we were informed, is the implications for the operations and activities of the Hydro-Electric Corporation, Transend and Aurora; of the State Government's special dividend and related matters. If I could give you a brief review of what has happened. Disaggregation took place on 1 July 1998. In that there was a debt allocation which was made. As a result of the lengthy period of investigation and discussion, the debt allocation was recommended by the then Hydro board and the Hydro was allocated \$1.045 billion but also received a greater part of the total assets of the old Hydro. Aurora was allocated \$350 million and Transend, for reasons which would no doubt have been given to you yesterday, was allocated a nil proportion of the debt.

There was both legal and accounting advice which was given to us externally to ensure that it came within the criteria which we were advised was the appropriate criteria to apply, which was that it would achieve a fair, equitable and efficient result. That was the guiding light and the guiding principles upon which we worked. The recommendations were made bearing in mind that Parliament had accepted that disaggregation should take place, and it was our function to achieve a smooth disaggregation.

In fact I would like to take the opportunity, because it is the first opportunity I have had since disaggregation took place, to compliment those within the old Hydro who achieved that disaggregation without a flicker of the lights and without a hiccup of any sort. I think it is something which stands to the great credit of all of those who were involved - the people who are now part of the three businesses - that they were able to achieve disaggregation as smoothly as was achieved. It is something which then gave us a springboard for taking forward the three businesses and our concern is with one of those.

Since 1 July we have spent time reviewing the situation of what was the new business, what is the new business and what can be the new business. The new hydro business is a business which we believe has real growth potential, and we have spent a considerable amount of time planning how that growth will be achieved. To read specifically in relation to the matters to which you have requested our attention, I would like to just briefly go through the submission which contains the points which we believe are the most relevant.

The current financial year, based on requirements foreshadowed by the previous Liberal Government and confirmed in the new ALP Treasurer's letter of 7 December and a subsequent letter, the Hydro has made provision in its financial statements for the year 1997-98 for a \$40 million special dividend to be paid in the year 1998-99. This is in addition to the ordinary dividend of \$17.7 million. The ministerial direction under the GBE Act has been given, parliamentary approval is awaited before the Hydro makes payment of that special dividend. HEC projections indicate that there is sufficient cash flow and reserves to meet the special dividend requirement for this financial year.

The three-year projections, the 1998 annual report - and I would like to distribute copies of the report, if I may, Chairman, to the members of the committee because reference will be made to them later. The report contains an extract of the HEC's corporate plan which provides details of forecast returns to government over the next three years. These forecasts did not include a \$40 million special dividend payment in the financial year 1999-2000, nor in the following year of 2000-2001. As the corporate plan was approved by the previous Government in June 1998, it therefore does not reflect the present

Government's policy decision, so it has not been included in those projections prepared as at the end of the financial year 1997-98.

The long-term projections. The Government's forward estimates are based on the HEC providing an ordinary dividend of 100 per cent of after-tax profit, and a \$40 million special dividend for the year 1999-2000 and the following two years. We understand that the Government has an expectation that this dividend policy will continue.

The implications for the Hydro of the special dividend. Financial projections under the base-case assumptions - that is, the expected market and industry climate, and I emphasize that - which are the expected market and industry climate, indicate that the HEC will have sufficient cash flow and reserves to fund a \$40 million special dividend over the next ten years. The HEC expects to generate reasonably strong cash flow during this period of time, and the special dividend will be funded from this cash flow.

However, financial projections of the HEC's future performance are sensitive to several key assumptions, including the wholesale energy price, interest rates, loss of a major customer or market share, and the level of hydrological support from the operational use at Bell Bay or electricity purchases from the national electricity market. As a consequence, actual outcomes may be more or less favourable than the base-case projections.

The impact on prices. The HEC projections are based on a price for wholesale electricity to retail customers which is reflective of that expected nationally in the future once present surplus capacity is used up. Latest estimates for long term sustainable wholesale electricity prices are in the range of 3.5 cents per kilowatt hour up to 4 cents per kilowatt hour, that is excluding losses. The GPOC 1996 investigation report recommended maximum prices based on a wholesale electricity price of 4 cents per kilowatt hour excluding losses, so our projections are under that.

Overall impacts on customer tariff levels will depend on GPOC determinations in relation to HEC wholesale prices and Aurora and Transend allowable revenues for transmission, distribution and retail margin.

The impact on debt. The requirement to pay the special dividend reduces the HEC's capacity to repay debt but, nevertheless, the HEC's target of interest cover ratio is projected to be achieved by the year 2006. In the absence of the requirement to pay an additional \$40 million special dividend, the target interest cover would be achieved by the year 2004 or thereabouts. At present the HEC has a ratio of 1.8 times and the target ratio has been set at initially 2.75 times, increasing to 3.5 times by the year 2003-2004 and that is the assumed onset of competition.

Prima facie, it would be preferable for the HEC to have a lower debt level and reach the target interest cover ratio at the time when competition or changes in market arrangements are expected to impact on the HEC. However, depending on market and regulatory requirements and provided that appropriate risk management arrangements are in place, the HEC's exposure to price volatility is likely to be limited for the first few years post-Basslink and the projected interest cover ratio is likely to be acceptable under the base-case scenario. I think perhaps I need to just read those words again. 'The

HEC's exposure to price volatility is likely to be limited for the first few years post-Basslink and the projected interest cover ratio is likely to be acceptable under the base-case scenario'.

Impact on capital investment and asset maintenance. The ten-year capital expenditure program used by the HEC each year undergoes an extensive review and half-yearly reassessment process is part of the budget and business planning cycles. The size of the capital expenditure budget impacts directly on the debt repayment forecast for that period. Similarly, the asset maintenance program is developed on the basis of detailed review of asset condition, monitoring and asset risk management. This includes expert external, including some international, reviews of the risks posed by our assets and the need for remedial expenditures as the assets age.

Prior to receiving approval from the HEC Board the annual programs undergo a comprehensive and detailed review by divisional and executive management. The analysis is based on findings from available asset condition information and the current status of strategic facility appraisal. In addition, consideration is given to whether the residual risks associated with the projects that have been deferred are manageable and within the boundaries of normal risk management - that is, business risk management.

Financial projections for the base-case scenario indicate that payment of the special dividend will not prevent the HEC from having sufficient funds to meet asset maintenance and capital reinvestment requirements over the planning period subject to the key assumptions remaining valid.

In relation to funding for new investment initiatives, it is considered that these would need to be stand-alone business cases with funding options, including reduced debt reduction, additional debt and joint venture arrangements.

The conclusions. The first conclusion: the Hydro needs to be able to ensure adequate flexibility to react to competitive pressures in the industry as required and to take advantage of growth opportunities when they become available. We regard that as being of considerable importance. Second, the present base-case projections indicate that the HEC should be capable over the next ten years of meeting government objectives and providing an annual special dividend of \$40 million, in addition to 100 per cent of after-tax profits, without significant adverse impact on achievement of its commercial objectives, always subject to the key assumptions remaining valid.

Payment of the special dividend will not be a distribution of profits and each year will require a ministerial direction to be issued to the HEC followed by parliamentary approval. That applies to each year as we proceed.

Third: on this basis operating profit and returns to Government, tax equivalent payments, dividends and guarantee fees are forecast to grow steadily over the period 1999-2008. During the period there would be sufficient internally-generated funds to meet business requirements for capital expenditure, tax and dividend payments and a reduction of debt enabling achievement of target interest cover ratio.

Fourthly: all forecasts and projections will be affected by the outcome of the GPOC pricing determination and therefore the effects of the proposed dividend policy would need to be reassessed at that stage. In addition, a yearly review of financial projections and industry and economic forecasts would be necessary to ensure the feasibility of the annual dividend policy and to confirm that the other key assumptions remain valid.

That is our submission in response to the subject matter advised to us, but we are of course happy to elaborate in answers to questions relating to our business and we look forward to cooperating with answers, either given now or where we are not in a position to give them now we would seek to have, as has happened in the past, the opportunity to make a note of them and provide the answers at a later stage.

CHAIRMAN - That would certainly be the case, Mr Rae. We would operate in that manner. Thank you for that address and overview of the matter. I am sure it does raise quite a few questions in the members' minds.

Perhaps, in the first instance, just a point or so of clarification. In the report you just brought to us, you said based under the current financial year heading, 'based on requirements foreshadowed by the previous Liberal Government and confirmed in the new ALP Treasurer's letter', from that it is clear, is it, that the previous Government was looking for a \$40 million special dividend, the same amount?

Mr RAE - Yes. For the current financial year that had been indicated to us prior to the end of the previous financial year and that had been built into the projections.

CHAIRMAN - But at that point there was no indication of that being a continuing special dividend because the plan at that stage was to lease or sell equity in the commission. Would that be correct?

Mr RAE - We were given notice of one special dividend of \$40 million. Chairman, I have also realised that I omitted to do something, which is to formally tender the submission which I should have done at the conclusion. I now formally tender the submission. That is the copy for the formal records.

CHAIRMAN - Thanks, Mr Rae. That will certainly be taken into evidence and used.

In terms then, has the commission looked at the ordinary dividend of \$17.7 million and added to that the \$40 million dividend and seen that as an aggregate return on assets? Have they looked at it in that manner? What is the board's view in terms of what is a reasonable return on equity or investment or on assets for the owners? It would have seemed to me that the \$17.7 million in itself is a relatively small return on the asset base which you are operating and what would you, the board, see as a reasonable dividend or return as a percentage of, say, assets or some other formula?

Mr RAE - It is an accounting rate of return of 4.94 per cent. There are many corporations which do not achieve that. We believe that coming from a negative base -

CHAIRMAN - When you say that 4.94, that is the aggregate or the -

Mr RAE - That is shown on page 38 of the annual report and how it is made up is shown there. I would like to take the opportunity to refer back to page 3 and perhaps just give you a couple of comments by way of background. If you look at the chart on page 3 it gives a perspective to where the old Hydro had come from and to by 30 June and that shows the position from 1989-1998. If you would bear with me for a moment, could I just take you through what that chart means because I think it is important as an answer to your question.

What it shows is that in 1989 the organisation, which was the old Hydro-Electric Commission in those days, had a substantial capital expenditure program, which is shown with the blue line above the base line of nought. To finance that, it had a substantial component, which is in green, which was compensation funds - that was Gordon below Franklin compensation funds. As well as that, it had some internally-generated funds but a relatively small proportion of the total were internally-generated funds. It had a quite substantial amount of borrowings, which is shown below the line colour, and -

Mr FLETCHER - Mauve.

Mr RAE - Mauve. Thank you very much. I was trying to think of the word, it is a colour which is not in my favourite category.

Laughter.

Mr KELLEHER - Perhaps puce.

Mr RAE - Puce for new debt is probably very appropriate. It may be that there is some deep and significant factor in the selection of the colour.

If we then go forward to 1993 where there was a completion of the construction era. Tribute power station was opened in May 1994 and at the end of 1993 we had an amount of money which was still coming from Gordon below Franklin compensation. We had somewhat of an increase in internally-generated funds; we were still using a balance of new debt, new borrowings to be able to carry out the program.

1994 was the year of the great change in the whole structure of the operation of the Hydro, and that is the year which to me is the year the Hydro came of age as a business and commenced operating as a

business, applying business principles. We revalued during that year; we produced accounts on a basis which was a commercial basis, and we were able to then develop the business in which, if you look at the year 1994, there was capital expenditure which was still considerable but totally out of internally-generated funds.

Also out of internally-generated funds - which is the yellow - there was the first repayment of debt. Also out of internally-generated funds that year was an amount of tax and dividends to the shareholder, the stakeholder, the Government, the people of Tasmania. That continued over the next five years and is, we believe, the kick-off point which ought to be viewed as the situation on 1 July 1998 at disaggregation where we had reached the stage where from, in effect, a nil return to the Government we had changed it to a significant repayment of debt and a significant payment to the Government.

In 1997 the total payment to the benefit of the State of Tasmania was \$274 million, which is a very substantial return out of this business. It has been sometimes misunderstood by those who have not read this graph or have not read the figures accurately that there was a poor return. It depends how you categorise the return; whether you look at what the Hydro has done by way of repayment of debt; what it has done by way of new capital expenditure out of internally-generated funds; what it has done by way of repayment of community service obligations for which it was not reimbursed, such as the provision of subsidised power to the Bass Strait islands, the provision of subsidised power to pensioners and other benefits which were all carried by the Hydro.

It would not be fair to compare the returns as at 30 June 1998 directly with a business which was operating in the normal position of a publicly-listed corporation because there were a number of benefits which were being paid to the State of Tasmania which would not be paid in that way by a normal corporation listed on the stock exchange. So the position from which we came in 1998 is one of quite considerable strength and, as calculated on page 38, establishing an accounting rate of return as defined - the accounting rate of return definition is shown on the right hand column - of 4.94 per cent.

Whilst that is not as good as we aim to achieve in the future, it was a very marked difference from the position of five years previously. So what had happened was that the business had been created as a business and had commenced to produce returns, having reduced debt by, up until 30 June last year, a total of over \$310 million in the preceding five years - debt had been reduced by that amount of money. So it was a performance which I believe was creditable from the point of view of any organisation and, bearing in mind some of the things which were also done during that period of time, such as achieving disaggregation, it was one which the State of Tasmania can perhaps be reasonably well satisfied.

I just wanted to give that basis as the basis from which we then look at what is the rate of return and can it be improved.

CHAIRMAN - Yes. You have moved through to that figure that you have highlighted to us there. In terms of return, I guess that is going to be the issue before the Regulator's mind, and I take it you will be making a submission to the Regulator in respect of what you feel is appropriate. You have mentioned the previous GPOC investigation report here in 1996 where the recommended maximum price is based on a wholesale electricity price of 4 cents per kilowatt hour excluding losses. I think that report, from memory, also indicated that it was not sustainable to set a figure that might be regarded as commercially viable because it would put the wholesale price up quite substantially above the figure

which they did set. So that leaves the worry in my mind: will the Regulator allow a reasonable commercial return to your operation and what would you see that as being? As I said, you will be making your submission to them in that respect, and whether you would expect to be dealt with any differently in that respect to the other corporations of Aurora and Transend.

Mr RAE - Yes, there will be a submission, which Mr Kelleher will be in charge of preparing. I would ask him to perhaps give a little more detail of the answer. The position with our expectations, with our projections, is that the Regulator will continue on the sort of course which has been indicated, but as to exactly how that has been taken into account perhaps Mr Kelleher could just elaborate a little further on that.

Mr KELLEHER - Thank you, Mr Rae. I guess there are a couple of aspects here. We would, I guess, expect to be treated the same as the other entities in respect that we are running a commercial operation in the same way that they are. The process that the Regulator, as we understand, has followed in the past and is likely to follow in the future, does differ between establishing prices for, say, the Aurora business or the Transend business versus this business. That approach is exactly the same as is adopted by other interstate regulators in determining prices for electricity entities. I will just clarify that a little for the benefit of the committee.

For what is known generally as 'regulated businesses', in particular for the transmission businesses and for distribution businesses and for retail monopoly services, as you alluded to, Chairman, the approach that is adopted there is to look at a rate of return that is seen to be commensurate with the risks involved with running those businesses. There has been a lot of interest, debate and discussion in the Press on this over the last couple of years as various parties have had different views about what sort of return that would be. That is the approach that will be, as I understand it, undertaken for determining the Aurora and Transend revenue base and prices for the forthcoming review. That then embodies an assessment as to what is the appropriate asset base and an appropriate return.

For the generation sector though, and for us, normally in the other States that is in fact not set by anything like that process. It is set by a process that lets the market determine the value of the product, and that basically sets the price. Clearly, in our situation here in Tasmania prior to Basslink coming in, the same set of market forces are not there, so the approach that I understand is likely to be taken and indeed was taken on the last occasion was not this rate-of-return-based approach but an assessment as to what the market value would be had there been a market here. So basically the approach that was undertaken by Mr Reeves last time was to look at a range of indicators as to what would give an estimation as to what the market price would have been. So really an economic value of the product not directly related to the asset base. So that again will be the basis of our submissions and indeed has been the basis upon which we have established these projections. Basically we do not know what price he will set but the parameters that are there, the factors that he takes into account will be by reference to what a market proxy, if you like, would be. There has been some reduction in wholesale energy prices in the national market since the last review and we have taken that into account with our projections in looking at a range of assumptions. As Mr Rae indicated, we have therefore attested the sustainability of the special dividend by reference to a range of prices, not just what one hears it is going to be; we do not know what the price is going to be but we established a fairly wide range and then tested the sustainability of the dividend in that context.

Mr FLETCHER - Whilst the energy Regulator may be a prudent, responsible manager looking at the best interests of the State and the sustainability of its generating utility, the energy Regulator has no

capacity - neither should he - to consider the special dividend or special payments to government as part of his equation of setting the price.

Mr KELLEHER - I think that is correct. There is no special consideration of the special dividend, as I understand the terms of reference - and perhaps this is a matter you could subsequently take up with the Regulator himself. But my understanding of it is that there are a range of factors that the Regulator needs to take into account, including the overall returns; like any commercial entity would be proposing, but also the fair prices to customers by reference to what is going on elsewhere.

Mr FLETCHER - Is there another energy generator anywhere in Australia that is paying 100 per cent of after-tax profit plus a special dividend to its owner?

Mr KELLEHER - I cannot answer that. I am not aware of -

Mr RAE - We could endeavour to make a survey to find out whether there is an answer which we can give to that from information which is published through ESAA.

Mrs JAMES - On page 25 of the last annual report - the graph referring to liability, equity and ratio - the \$40 million the previous Government made known that they would want for this financial year, was that in the predictions for 1999 in the liability equity ratio?

Mr KELLEHER - Yes, the 1998-99 ratio does take that into account.

Mrs JAMES - That includes the \$40 million that the previous Government made known to you that they would require that?

Mr KELLEHER - That is correct. The subsequent years do not.

Mrs JAMES - I see that over \$101 million was provided to the Tasmanian community last financial year. What would the figure be for this financial year with that \$40 million included? Are you cutting back on other contributions? There will be \$15 million, I believe, the Aurora will get in CSO money back from the Government?

Mr KELLEHER - I can only comment on what we will be providing and that is indicated on page 38, which the total returns to government there is \$86.4 million.

Mrs JAMES - Does that include the \$40 million?

Mr KELLEHER - That is correct.

Mrs JAMES - So it is actually less than last year.

Mr KELLEHER - It is only our share of it though.

Mrs JAMES - Yes. There will be Aurora's and Transend's contribution. Have you any idea what that is predicted to be?

Mr KELLEHER - I do not have that information.

Mrs JAMES - Who actually pays the \$40 million; the Hydro or the others combined? The three entities.

Mr RAE - It is a direction from the minister requiring the Hydro - that is, the Hydro-Electric Corporation as reconstituted as a new organisation on 1 July 1998 - it is that body that is required to pay the \$40 million.

Mrs JAMES - Will that flow in on to what you charge Transend?

Mr RAE - No. We do not have a capacity to directly pass it on.

One other point. You did mention about CSOs. Part of the CSO is payable to the Hydro and part of it to Aurora. In relation to the pensioner provisions, that is paid to Aurora with regard to the benefits to reduce the price for the Bass Strait Islands, that is our concern.

Mrs JAMES - That is \$4 million.

Mr RAE - Yes, a bit over four.

Mrs JAMES - And they get the rest?

Mr RAE - Aurora gets the whole of the rest.

Mr KELLEHER - They get what is associated with the pensioner subsidy and the Government is in the process of paying us.

Mr CHEEK - I wanted to ask a question on the targets on page 38. The target for 2000-2001, I presume this is based on before disaggregation, the targets you have set there.

Mr RAE - They were targets which were set before disaggregation to operate after disaggregation.

Mr CHEEK - Right. So the target there of \$12.4 million was just for the Hydro -

Mr KELLEHER - The new Hydro.

Mr CHEEK - I see. We have already heard that Aurora had a profit projection of \$21.5 million in 2000-2001 and Transend \$19 million for this financial year. Do you see the projections you have there as being an increase on what you have actually projected?

Mr KELLEHER - I beg your pardon?

Mr CHEEK - Do you see the \$12.4 million there, taking into account that Aurora increased from 8.8 to 21.5 million in their third year, are you comfortable with the assumptions you have there, with the target you have there?

Mr KELLEHER - We are presently going through - as Mr Rae indicated, these projections were established just prior to disaggregation but with post-disaggregation in mind. We are presently going through our annual planning process and these will be updated. However, in direct answer to your question, yes, we are comfortable with these projections as being something that we are confident of.

Mr CHEEK - So what growth have you actually got in your revenue projections for the next four years?

Mr KELLEHER - There is some modest volume growth. The main impact where you are seeing this after-tax profit increase is in fact from the impact of reducing interest charges, partly as a consequent of some continuing debt reduction. But the major factor in fact is we have had some very large packets of debt that were taken out some time ago in higher interest rate environment that will be rolling over into much lower interest rates and that is really the main factor seeing our profit increases.

Mr CHEEK - Are there any other efficiencies that you expect to get over that period of time, in jobs for instance?

Mr KELLEHER - Labor costs are not the largest portion of our operation, perhaps unlike Aurora. Our mix - we have a lot of different costs. We will be continuing to pursue vigorously efficiency and productivity gains within our organisation. We are also, I guess, part of our new arrangement as the post-disaggregated Hydro, we are looking very much at growth opportunities and the opportunities that the new renewables will provide, as well as the opportunities that Basslink will provide.

Mr CHEEK - What price increases have you actually factored into those profit projections?

Mr KELLEHER - As I refer back to our submission, we have in fact, compared to the previous GPOC determination of four cents, our projections are based on lower prices than were prevailing in the present price structure.

Mr CHEEK - So the extra profit then is coming from lower interest payments -

Mr KELLEHER - And some load increase and some growth in our other areas, like our consulting activities which we are now starting to place additional emphasis on in a post-disaggregated environment to look for growing the consulting activities.

Mr RAE - A lot of that is straight to the bottom line and a lot of the interest savings and other things are straight to the bottom line so that it does have a marked difference. On volume growth, could I just make a point which is sometimes misunderstood. We have been experiencing about a 5 per cent growth in volume of production, not for revenue, but the volume of production over the past several years - I think about the past four it has averaged 5 per cent - and that is contrary to the view expressed by a lot of people about what has been happening in the Tasmanian economy. Whatever has been happening elsewhere in the economy the HEC has shown that increase in production.

A problem which we are facing is how long can we continue to deliver an increased volume of electricity generated out of the existing system because we are now past the long-term capacity of the system. For instance, in the month of January the delivery was just under 1 200 on a scale which is just over 1 100 for the long-term capacity, so we are in a situation where to continue to grow it will be necessary for us to have greater productivity out of the system by one means or another. But the demand is not so much the concern as the capacity to deliver.

The management of debt is also an extremely important aspect of the way in which we see the future and the likelihood is that we will continue to get significant benefits out of the rolling over of old higher interest debt into new low interest debt. The capacity for us to increase the generation of electricity as a result of cloud seeding activities is something which we have already reintroduced and we expect to get a significant benefit from that which will help us cater with increased demand.

CHAIRMAN - I note your system water storage has fallen from 1997 to 1998, is that a reflection of that comment you just made or is it just a rainfall difference?

Mr RAE - I think that was a variable. We are up again as a result of what has been a relatively wet summer, although it has not been as wet in the catchment areas for the Hydro. It has not been as abnormally wet in those areas as it has been in some of the other parts of Tasmania but, nevertheless, we are standing quite well at the moment in relation to storages. It is a variable but we do not want to get to a situation such as 1990-1991 or back to 1967-1968 where the weather becomes a real problem.

Mr CHEEK - What rate of growth in the Tasmanian economy have you factored into your projections for extra volume? You must have had a rate of growth overall in the Tasmanian economy and can you tell us what that is, please?

Mr KELLEHER - If I could just clarify your question - our assumption in relation to Tasmanian overall economic growth or assumption in relation to energy growth?

Mr CHEEK - Overall economic growth, which goes hand in hand, I think with -

Mr KELLEHER - We have adopted a fairly conservative - as all our assumptions, I guess, are - approach in this and our assumptions at this stage are fairly flat, about 0.5 per cent per annum GSP.

Mr CHEEK - Over the next four years?

Mr KELLEHER - Per annum.

Mr CHEEK - As far as interest rates go, they are at a very low level at the moment, what difference is it going to make for, say, a 1 per cent rise in interest rates?

Mr KELLEHER - Our projections, in fact, factor in about that sort of order of an increase but our debt portfolio management arrangements largely protect us from fluctuation from one year to another. Obviously a sustained increase over a long period of time would have more impact but only 20 per cent of our portfolio is impacted by interest rate changes in a year.

Mr CHEEK - How much?

Mr KELLEHER - 20 per cent.

Mr RAE - We are still receiving the benefits of the reduction down from higher levels to lower levels so that even if the following year saw an increase the trend would still be down because some of it is coming from quite higher, longer-term debt from the days when interest rates were much higher.

Mr KELLEHER - We have the large packet of around 14 per cent that will be rolling over in the next couple of years, so even if interest rates go up a bit it is unlikely - well, it is fairly remote that they will move into that sort of order again.

CHAIRMAN - Yes, we did receive full details of all your loans and interest rate levels on our previous inquiry.

If I could just get back a moment to the Regulator's role, and you were saying that with you he is dealing with you in a different manner to the other two entities and that it is not so much a rate of return as a competitive price with the mainland situation and you did quote his figure earlier and you have apparently done some studies of what you believe the long-term sustainable wholesale electricity prices are 3.5 to 3.9 excluding losses, that is as a result of studies on the mainland, is it, in terms of where you think they are going?

Mr KELLEHER - There is a pretty consistent view really emerged over the last twelve to eighteen months of that sort of range. In Tasmania of course the new entrant costs may be higher than that and that could ultimately set a market rate in excess of that, but with Basslink coming in then essentially one would see in that form of new entrant prices evened out across the nation, so we have adopted the more prudent mainland new entrant rate which in the period we are talking about here and for Basslink the existing surplus capacity in Victoria and New South Wales will have just about come to an end. And we are seeing in other States where that surplus capacity is not there; in other words, in a similar situation to our State. In South Australia and Queensland prices have been in the order of 4 cents, that sort of order.

CHAIRMAN - Well, the Regulator taking this approach with you essentially insists on you getting what is competitive price rather than one that necessarily gives you what might be considered a reasonable commercial return on your assets that are deployed. On that basis of course the value of the Hydro-Electric Corporation then is based largely on the price that he sets for you and its real value in terms of selling it or anything else I guess comes back to that figure and not necessarily could be drawn from the valuation of your assets. Would that be correct?

Mr KELLEHER - That is absolutely correct, and indeed probably not well understood, that our asset valuation is in fact based on such an approach. So whilst the replacement costs, if you like, if you had to start off tomorrow and build them all again you would end up with a very much larger number than the value of the assets that is in our balance sheet. Our asset value is in fact determined on a process each year that actually looks at the earnings capacity of it - it is an earnings valuation. So in fact the asset value that you see in our balance sheet - last year, as the old organisation, it was about \$4 billion; for our new organisation it is about \$3 billion - is in fact based upon looking ahead over a very long period of time obviously but with a market energy price and then discounted back.

CHAIRMAN - So the energy price determines the value of the operation and what you are saying is you virtually set an accounting rate of return that is seen to be reasonable in the commercial sense and from that flows the value of your asset, you then calculate backwards.

Mr KELLEHER - That is right. Certainly getting to an important understanding of this, that the cash flows are forecast out, they are then discounted back at a commercial rate of return reflecting each year that discount rate is by reference to other entities operating in the same sort of industry structure and that then sets the asset value. The reason that then, if you look at today's earnings divided by that, that is because we have actually wrapped in all our future growth and achievement of post-Basslink gains and those sort of things in the asset value now.

CHAIRMAN - So on that basis then, the fact that you are being forced, if you like, by the Regulator to be commercially competitive and he will give you a price accordingly means that with the introduction of Basslink that that will be neutral towards your profitability or otherwise. There has been previous talk about an impact of Basslink perhaps devaluing the Hydro-Electric Corporation in its total value when in fact that really is occurring by the Regulator if that is to be, rather than the installation of that link.

Mr KELLEHER - That is correct but I guess there is a positive spin on it as well in that Basslink itself will in fact offer us some additional value. We expect Basslink to increase the value of our assets as it opens up markets for our renewable energy arrangements and, as I am sure the committee have seen recently, growing interest in renewable energy. Perhaps, Chairman, you would like to make some comments.

Mr RAE - Yes. We see Basslink as being an absolutely essential component of the future growth of the Hydro-Electric Corporation in Tasmania, both from the point of view of the size of its activities and the profitability of its activities. We see it as presenting opportunities to trade into the national market; we see it as providing opportunities to trade in renewables in the national market. We see it as placing us in an advantageous position when there develops, as we believe there will or is very likely to be, an emissions trading market. The required 2 per cent renewables under the post-Kyoto requirements imposed by the Federal Government which will be to our advantage once Basslink is available. The further development of cloud seeding and other forms of generation such as cogeneration of wind will also help in the benefits -

CHAIRMAN - Or further hydro.

Mr RAE - Further Hydro - that we can obtain. We also then will be relieved of the down cost of having stand-by which is not generating any revenue but is costing a bottom line net cost, which is something we have had for the past nearly 30 years. So Basslink is seen as something which is likely to add to the value, not reduce the value.

There are things that we have to do to prepare ourselves for competition and we see what the Regulator is doing as helping us prepare for competition. We are working very hard applying ourselves fairly assiduously, and may I just make the point, Mr Chairman, that even the appointment of the new CEO, Mr Geoff Willis, who is coming from a non-electricity background but from a very experienced commercial, highly-qualified commercial background, helps us in the commercial approach which is necessary for us to adopt as we approach the new commercial situation which will be that post-Basslink, post the introduction of the national market competitive arena that we are entering.

CHAIRMAN - A change in culture.

Mr RAE - We are looking forward to it and preparing ourselves fully for it.

Mr CHEEK - What about the impact of gas if that is brought ashore in large amounts?

Mr RAE - Gas can be beneficial to the development of Tasmania and can be beneficial to the consumption of electricity and by having industries which utilise gas and utilise some electricity. If it is competitive with us and can be competitive with us in the substitution for boilers and other areas, then that is nothing changed from the existing situation where we have competition with gas. We have taken on and competed with the gas retailers; we were losing market share some five to ten years ago. There was a period of time when we were losing market share to gas, we have regained a lot of that. We have regained it by a very positive approach to competing for that market; we believe that we can continue to compete. We are not concerned about the introduction of gas as being something which will destroy our market, maybe it will keep us on our toes a little.

CHAIRMAN - You mentioned earlier with renewables; you implied, I think, you would be looking to get a premium.

Mr RAE - Yes.

CHAIRMAN - To what level would that be? Do you have any ideas of what sort of premium that would bring?

Mr RAE - There are a lot of projections, there are a lot of conferences being held at the moment at which learned papers are given, all of them looking into crystal balls. I prefer not to look into a crystal ball before you, I am giving evidence in which I say I believe there are premiums to be obtained and so do those who generally in the industry believe that there are premiums to be obtained.

CHAIRMAN - Five or ten per cent?

Mr RAE - Just substantial premiums worth pursuing, Mr Chairman.

Laughter.

CHAIRMAN - Not more than that.

Mr RAE - I am not prepared to say anything more specific than that.

Mrs JAMES - What effect will the lease of the Bell Bay power station have on the Hydro? Do you get the moneys from the lease?

Mr RAE - The arrangements which have been made with Duke Energy are arrangements which are commercial, they are required to be commercial. The Hydro is bound by statute to act commercially and to produce commercial results. We have entered into very extensive negotiations with Duke Energy. We believe that the final result was a commercial result. Before the board signed off to the agreement we had it independently checked by external experts to give us certification that it was a totally commercial deal. It is a totally commercial deal, according to our advice, and the board's opinion was that it should be agreed to on that basis.

The detail of it is a matter of commercial confidence, which I am sure right at the moment, Mr Chairman, it would be understood that whilst we are always prepared to provide you with any information, right at the moment I believe there are negotiations afoot which would not necessarily be enhanced by us providing any more detail than the assurance -

Mrs JAMES - I was not asking that sort of information, I just wondered whether Hydro were handling that side of the lease.

Mr RAE - The Hydro has handled the side of the negotiation with Duke Energy. We have reached an agreement with Duke Energy which we believe is a commercially-proper, commercially-beneficial agreement -

Mrs JAMES - And that will be done through you, not through Treasury?

Mr RAE - That is being done between the Hydro and Duke. We signed a memorandum of agreement. There was a separate memorandum of agreement signed between the Government and Duke and they are matters outside our area.

Mrs JAMES - But that would be increased income for Hydro rather than having it -

Mr RAE - We believe that the agreement which has been reached is beneficial to us, we think it is one which is a win-win situation. If I can take the opportunity, when we signed the agreement, I gave to Kevin Howell, the representative of Duke Energy, the pen with which we had signed it. It was a Hydro pen. I presented it to him and I said, 'This is the only giveaway in this deal' and, Mr Chairman, so far as we are concerned that was the only giveaway in the deal.

Mrs JAMES - There is extra capacity there for the Hydro to use, is there not, or could put in more turbines?

Mr RAE - There are benefits from combined-cycle development which can be obtained, yes.

Mrs JAMES - And that is a call-back for you if you need it.

Mr RAE - The output of the Bell Bay power station can be increased substantially by alteration to the power station as well as by addition of new turbines.

Mrs JAMES - Is that factored into your -

Mr RAE - There are a lot of opportunities which have been factored into negotiations.

Mrs JAMES - I meant into your prediction.

Mr RAE - No. The predictions do not cover the Duke Energy deal.

Mr CHEEK - Just a quick question on that, Mr Chairman. Who are the independent experts who assessed it?

Mr RAE - They are a world-renowned company who, as part of their terms of engagement, required us to enter into an agreement for confidentiality; that it was between us - that is the Hydro board - and

them. While I am in a position to say that we obtained it, I am not in a position to say who it was. They have become what seems to me to be extremely sensitive since perhaps some large actions have been brought against advisers in litigation that they required that particular provision to be made. I can only say, Mr Cheek, that the board obtained what they believe was the best available advice and were satisfied by it.

Mr CHEEK - So it was just one independent assessment?

Mr RAE - It was by a large organisation utilising several of its experts within that organisation, several people but there was only final result, one final document.

Mr FLETCHER - Mr Chairman, I would like to intervene here because I find it extraordinary in the extreme that the name of the party cannot be divulged. I accept totally that there is certain commercial-in-confidence information that is paramount to the successful outcomes with regard the project, but for the chairman to be suggesting that he cannot divulge the name of the independent consultant who worked on the project is, I think, totally unacceptable to this committee and is certainly totally unacceptable to me. I cannot understand what it could be that would cause a party not to want to have its name divulged to the public when it is a significant contributor to the future welfare of Tasmania.

CHAIRMAN - I think I might need to come in here. The committee is very interested in commercial-in-confidence matters. We have just been to a conference of Australasian Public Accounts Committees which has been dealing and talking about that topic, including a paper I presented there. The general situation that seems to be developing in jurisdictions generally is that it is generally regarded in many quarters now that all contracts between government-owned or government entities and the private sector be totally disclosed once negotiations have been completed. We have not totally moved into that scenario here as yet, although it would only be speculation if I said we probably will at some time. However, it is generally regarded that if there is information central to an inquiry which is regarded by a witness as commercially-in-confidence, it is really upon them to put a case forward that substantial commercial damage would be done by the revealing of that information. So if the committee is looking for information of the nature that I have been talking about, we would then look for the witness to comprehensively try and demonstrate to us that commercial harm would be done. In this case we would probably look for some comments in that regard from you.

Alternatively then, the committee has the opportunity of saying that it would like to have that information or maybe that information could be received in camera and then deal with it subsequently, which we would be entitled to do, I understand. Perhaps at this point you could make comments on particularly the matter in relation to what Mr Fletcher brought up in naming the company that was involved in this exercise.

Mr FLETCHER - Mr Chairman, I might like to intervene again at this stage. It seems to me that the chairman is putting a proposition that Tasmanians can have faith in the outcomes of these negotiations because the HEC has retained the services of a world-renowned consultant who has considered the matter and advised that the matter is all we would hope it to be, and I accept that. But when the minister says this information is so confidential that we cannot even name the consultant who carried out the work, I think that is going beyond the pale. I might have misheard you and perhaps you did not say that at all and if you did not then I do apologise. It seems to me to be fundamentally important if

we Tasmanians are to have confidence in the process that at least we know who we are doing business with.

Mr RAE - Mr Chairman, I could give evidence in relation to this in camera and would seek to do so. It is something which is not of our making. It is something which was a requirement of those who provided the advice to us. We were able to obtain what we believed was the best available advice upon certain terms. One of those was that we undertook in writing, in a firm agreement, that we would not disclose the name of the people who had provided the advice to us.

Mr Fletcher finds that difficult to accept. Quite frankly, so do I. But we entered into that agreement because they are the terms upon which, after some considerable negotiation, they were prepared to provide their services to us.

CHAIRMAN - In relation to that particular point, there is legal opinion of course that if the High Court dealt with such matters that commercial-in-confidence clauses of such nature would not be legal, nor would secrecy provisions in legislation and so on even be allowed. That is only a view but that is just to sort of pick up the picture a little bit in relation to those matters.

What the committee would need to do at this point, I would see, is to deliberate on the matter, because if we just accept, 'Yes, we will take it in confidence' it is then evidence that we are unable to use without permission of the witness, according to our act. So the information then is not particularly valuable to us. What the committee would have to deliberate upon is whether we called for that information other than in camera and I think that is where the committee - at this point perhaps we need to clear the room - and deliberate on that matter.

Mr RAE - My request, Mr Chairman, was that you might hear us as to why so that you may then deliberate.

CHAIRMAN - We are certainly happy to hear your point of view before we do that.

Mr RAE - Thank you very much. If you could hear that in camera so I can explain.

CHAIRMAN - It is a committee decision in terms of whether we go into camera or not. If the committee want to discuss that deliberately or do it in open -

Mr KEN BACON - Mr Chairman, I believe the explanation in camera would be acceptable.

Mr FLETCHER - I take a counter point of view. I believe that the public is entitled to know the reasons why we are going in camera. I understand that there is probably information of a commercial-

in-confidence nature that cannot be divulged and we should hear that in camera. I cannot understand why the name of the consultant is so critically secret that we have to go into camera to receive that, but the chairman needs to mount an argument as to why we do that. I think, before we go into camera to consider whether we will hear the chairman in camera, we should once again hear evidence from the chairman, and/or others, as to why we need to do that; why do we need to go into camera just to get a name?

Mr CHEEK - I support Mr Fletcher on that. I do not believe giving the reasons about why we should go into camera - I believe that should be made public. I think why it should be commercially-in-confidence - the explanation of why that should happen should be available to everybody, so I would support those remarks because you are not divulging the name, you are only divulging the reason why you cannot put the name forward.

Mr KEN BACON - Mr Chairman, the pertinent point is the name of the company that provided the advice, not the reason why and I think the reason why should be given in camera if that is the request of the witness.

Mrs JAMES - I agree.

CHAIRMAN - Nevertheless I believe, and the general theme of these things, is for people to explain reasons, general reasons, for information being given in camera and I would invite Mr Rae to perhaps, in a general sense and if he is able, give us generally the sort of commercial damage or public problem, or whatever there might be, in relation to giving that sort of information. If you are able to do that in public in some way, in a general sense.

Mr RAE - Yes, Mr Chairman. What I had hoped to be able to do was to obtain a copy of the actual document, which is the terms of engagement of the particular firm, and to be able to refer to you the actual wording of that so that you know what it is, which was the wording that was required by them before providing us with the advice which they have provided to us. I do not have the document with me but I can get that within a matter of minutes. I wonder if we could perhaps adjourn this matter. I can then read to you publicly what is in the terms of engagement and then you can consider what you do from there. I am certainly not wishing to see anything covered up. I would prefer to be able to refer to the names of the advisers who gave us the advice upon which we relied but there was a condition which was entered into. It is a matter of how you wish to deal with that situation. I am familiar with the

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Mrs JAMES - Did you say there was legal action with the advisers involved?

Mr RAE - There is no existing legal action with those advisers so far as we are concerned. What they have done is say that they wanted to have that term because of other experience and that is a standard requirement worldwide from their organisation.

Mr CHEEK - Mr Chairman, just to put this in perspective, can I ask Mr Rae how much the consultant cost the Tasmanian public so we know exactly what sort of advice was given, or the importance of the advice?

Mr RAE - I will obtain that figure along with the document which I am going to send for.

CHAIRMAN - You do not have a problem about giving us that information in public?

Mr RAE - I do not have a problem about reading to you that part of the terms of engagement which is the contract which we entered into. I can also obtain the information as to the amount which was finally paid for the advice. That was paid as part of a commercial operation by a business enterprise, not out of the taxpayers' funds.

Mr FLETCHER - Mr Chairman, I wonder if I could ask the chairman again to enunciate why it was that the HEC chose to select this consultancy firm to do the work under such restrictive conditions, knowing that the issue was of great importance to Tasmania and to Tasmanians, that they should agree to commercial-in-confidence provisions with regard the information. But further, they should agree to secrecy provisions in regard to the name of the organisation. Was there not another organisation consultancy somewhere in the world that could have done the job that would not require this condition?

Mr RAE - There are probably a dozen others and I think probably eleven others who were involved with a conflict-of-interest situation. Also one of the benefits of this particular organisation is that they had previous experience in relation to matters to do with the Hydro-Electric Corporation and the electricity energy industry in Tasmania. That gave them an advantage to be able to do it in a cheaper and more expeditious way than some others who might have been able to be recruited from overseas. If you bear in mind, please, that at this time of Basslink and the engagement of consultants in relation to that, the people who were engaged in relation to disaggregation - and there are a large number of consultants of various sorts who were engaged in relation to that - there have been, of the relatively contracting number of people who are in a position to provide that sort of advice, it has reached a stage where our choice was limited and these were the most appropriate people. I hasten to add, Mr Fletcher, that I am not happy about the terms of the particular agreement and I am not pretending that it is something which we would have done, other than endeavour to negotiate to have a different arrangement.

Mr FLETCHER - You have now suggested to me, Mr Chairman, that this consultancy firm has some experience previously in Tasmania and has an understanding of the workings of the energy utility in its various forms in Tasmania. Were such secrecy provisions required when previously they worked for the HEC in Tasmania?

Mr RAE - I do not recall it; it was some four or five years ago. I do not think they were and I think they are a more recent addition. There were two days of negotiations that went on over the terms of engagement, lasting late into the night, back and forth between the parties as to the terms of engagement. It was not something that took place lightly.

Mr CHEEK - Mr Chairman, can I just ask Mr Rae: was the State Government aware of the condition of anonymity?

Mr RAE - I do not know. It is not something which we have discussed with -

Mr CHEEK - They were not involved in negotiations?

Mr RAE - No, this was something which was a matter for the board to satisfy itself in relation to its legal responsibilities and we obtained the information to satisfy ourselves. We obtained legal advice and I can tell you that the legal advice which we obtained was from our solicitors, Clayton Hewitts, who did not require any special confidentiality, and they provided legal advice as to compliance with all of the obligations under any legislation either existing or the ACCC or other possible attitudes that may be adopted. We covered off that aspect of it. We then wanted to cover off the commercial aspect and the people who we obtained, I have already mentioned who they were.

Mr CHEEK - Does the State Government know the name of the firm?

Mr RAE - I do not think so.

Mr CHEEK - They would not know the name.

Mr RAE - I doubt it. I do not know of any basis on which they would.

CHAIRMAN - Would they be entitled to know that?

Mrs JAMES - You have legal qualifications yourself, of course.

Mr RAE - Yes, and I was involved in the negotiations with them and I endeavoured to get the best and the most appropriate arrangement, but we were in a situation where if we wanted the advice there was a term which was required.

CHAIRMAN - Would you see that your owners would be entitled to that knowledge?

Mr RAE - Not necessarily, no. It is not normally divulged at a shareholders' meeting and it is something which was part of the commercial operation of the Government Business Enterprise. If the minister required it then we would of course discuss it with the minister but it is not something which you would normally report. We do not report every part of the operation, every contract that is entered into, every engagement of any sort of adviser.

Mr FLETCHER - Mr Chairman, through you - I have a very high respect for the negotiating capacity of the chairman of the HEC but he seems to suggest that this negotiation was a protracted negotiation and there was some attrition in relation to working late at night before a result was finally achieved. Was the issue of anonymity or secrecy of the name one of those matters that were a factor of attrition in reaching an agreement on this matter?

Mr RAE - Yes. There was an amendment, which I could explain with the document before me, which was made. There were quite a number of amendments which were made. I do not know that it is of great advantage to go through all of the amendments which were made. But shall I say, the end document was one with which I was a lot happier than that which was initially proposed.

Mr KEN BACON - Mr Chairman, could I just clarify for my own - it is not the advice that was given that is secret, is that true?

Mr RAE - The end result I have outlined.

Mr KEN BACON - It is not the price that was paid that is secret, it is just the name of the company that gave the advice and there are reasons why that is to be kept secret and what the witness is asked is the reasons why be put on camera. Now I think if it is just the name I think that ought to be agreed to by the committee.

Mr RATTRAY - Mr Chairman, I would like to add something to it. It is a very interesting debate that we are having and I personally think we should give the chairman of the HEC the opportunity to put before us the evidence that we are looking for. We seem to be wandering through this just not sure where we are going and I am still not sure where we are going, but if the chairman has something to offer that clears our mind I think that is what we ought to be here for and I propose that is what we do with this committee. We adjourn and we allow the chairman to obtain that information and then we should be better informed of whether we should pursue what we are pursuing or get on with what we ought to be doing.

CHAIRMAN - It is necessary for the committee to make a decision in regard to that matter whether we do take evidence in camera or not. Mr Cheek, you were calling for the information.

Mr CHEEK - Mr Chairman, I just find it extraordinary, Mr Rae, that the owners of the business enterprise would not know the name of the firm that is giving that independent advice which is so vital to Tasmania's future. I think any owner would want to know something of that magnitude.

Mr RAE - I note what you think. Is that a question?

Mr CHEEK - Yes, it is a question. My question is: why did you not inform the owners of the name of the company so they could have confidence that they were giving the right advice?

Mr RAE - We have, under the Government Business Enterprises Act and the associated legislation, statutory obligations which are imposed on the directors of a business enterprise such as the Hydro. There are obligations to satisfy ourselves, there are obligations to report to the Government, to the various ministers as the stakeholder minister or the portfolio minister. That does not involve us in reporting every detail of how any commercial decision is arrived at. The operation of a government business enterprise is as an independent government business enterprise which is subject to certain provisions of the legislation, including matters which are set out in the act and the schedules to the act and also set out in the Treasurer's instructions. The minister can, if he wishes, obtain information. This was not something which I have any recollection of having provided to him. It may be that he did request it and did obtain it, but I do not have any recollection of that happening.

CHAIRMAN - I think the committee should be familiar enough now with the issue before them and there are two courses of action: whether they are prepared to hear Mr Rae in camera as to the reasons and also the name and further details we might want or whether we believe that information should be made public and then have a deliberative session - I am not suggesting straightaway now - to give further regard to that matter, so that at least in the meantime having decided, one way or the other, we can continue with the other aspects of the inquiry. If members want to make further comment - but we need to come to a decision fairly quickly on this.

Mrs JAMES - I feel as the chairman is prepared to provide us with certain information which may well satisfy us that he first of all be given the opportunity to do that in public.

CHAIRMAN - So you are moving then that the evidence he is looking to give us be taken in camera.

Mrs JAMES - No. The information he is prepared to give us in public that he be requested to do that and be given the opportunity. He says he can get it fairly quickly.

CHAIRMAN - I see.

Mrs JAMES - That we first of all consider that part and that may well satisfy us.

Mr FLETCHER - Do you want a seconder for that motion?

CHAIRMAN - Yes.

Motion carried.

CHAIRMAN - How long would you require to get that information, Mr Rae?

Mr RAE - Somebody has already gone to get it. I would imagine it would be available within ten or fifteen minutes.

CHAIRMAN - Fine. Are there any other questions in relation to that or other matters while we are waiting for that.

Mr RAE - If I may just sum up, Mr Chairman. I find this most embarrassing and most invidious and I am sorry that you have been placed in this position but I am equally sorry that I have been placed in this position.

CHAIRMAN - It is a difficult area that we have to deal with. It has been a matter of great concern through a lot of jurisdictions and there are difficulties in this regard. We are hoping on the national and State and political level that they will be sorted out to ensure one thing or another that such confidentiality clauses, in my view, are not legal in the future would be the best answer to the question. But it not having been resolved either way we have still to work through this dilemma. I do not feel sorry about it, I do not apologise for that, it is part of our game and part of what we have to do.

Perhaps Mr Fletcher has a line of questioning he could proceed with until the other information arrives.

Mr FLETCHER - I want to go back to the special dividend and be reassured that there is a capacity to pay that special dividend and that the payment is not going to place the corporation at a risk that a prudent manager should not accept and, in doing that, I would like you, so that I can get my mind in order so there is a logic about my proposition, to confirm or not confirm the position that I am taking.

It seems to me that the owners have requested - and there is an expectation that the request will be met - a dividend of 100 per cent of after-tax profit in the foreseeable future and further to that they have requested a special dividend of \$40 million per year and there is an expectation from Government that that process will extend for, say, ten years and the corporation is aware of that. The corporation in presenting its base-case scenario has said 'subject to the continuing validity of our assumptions, we can pay that special extra dividends, not out of after-tax profit because we are not going to have any, but rather we will pay that out of cash flows and cash reserves'. The greatest component of your cash flow profit, in my judgment - and I would ask you to accept or refute this statement - is going to be the depreciation - your non-cash expense of depreciation. So it would seem to be that you are going to

fund a substantial part of this \$40 million per year - \$400 million over ten years - out of the non-cash expense component of your cash flow. I get a nod, so there is an agreement with that proposition. If that is the case, the sustainability of the HEC is very dependent upon the quality of its fixed asset base - the subject of the depreciation.

I would like you to reassure me that the movement of \$40 million per annum from the non-cash expense to a payment to government is not going to put the asset at risk into the future.

Mr KELLEHER - I can certainly give you that assurance, I think. Our assets are, of course, along with our people, the essential ingredients for the value that this business generates. Therefore it is critical that those assets - reliability and capability to generate revenue - are maintained. We therefore place considerable emphasis on our activities in terms of world's best practice asset management, maintenance and condition monitoring. That is a key focus of the activities of the business. That really is what is enabling us to achieve this outcome - essentially by best practice approach to asset maintenance activities. We are able to maintain the assets at the required level of reliability and in fact increase their value and their life beyond that which normal practices would undertake.

We do not rest easy on any assessment that we have got it all right. We have continuing reviews of our practices. Only very recently we have had independent benchmarking of our practices. Our asset strategy processes are between top quartile and top 10 per cent of world's best practice. We are aiming at getting a top 5 per cent because it is such a crucial aspect of our operation.

Mr FLETCHER - I have been informed, through a series of earlier questions, with regard the basis of valuation. Which accounting standard do you accept for the depreciation of your asset?

Mr KELLEHER - Well, there are two components: there is accounting standard for the treatment of depreciation itself, and there is another accounting standard which determines the appropriate asset valuation which then the depreciation is based on. Our depreciation approach is pretty straight forward.

Mr FLETCHER - One would presume - I am presuming - that the depreciation schedule is a conservative rather than an extraordinary schedule.

Mr KELLEHER - That is correct.

Mr FLETCHER - Then if it is conservative - the depreciation schedule is a conservative schedule - it surprises me that you can pull \$40 million a year out of that depreciation and pay it as a dividend to the Government and still maintain your assets at a top quarter percentile of world's best practice. I have some conflict with that proposition.

Mr KELLEHER - Well, I can only provide the facts as I know them. I think perhaps your difficulty may be that accounting standards and accounting lives reflect a number of factors, not only physical

degradation. So accounting lives reflect a prudent view of physical, commercial, technological, obsolescence factors as well.

Mr FLETCHER - Yes.

Mr KELLEHER - And so from that one divides into the asset value the appropriate economic service life for those. What we are actually finding though is that whereas, on the basis of those lives, one generates a depreciation expense of, say, \$75 million, that through these best practice asset management strategies, we are able to maintain assets at reliable, quality operating capability with in the order of \$35 million a year. It is essentially the difference between those two that is enabling us - and that is actually adding value each year to the asset value.

Mr FLETCHER - Some would see that as a tax minimisation method, where your owners are also your tax collectors. It does not matter too much, I suppose, on that basis, does it?

Mr KELLEHER - Well, if your former proposition was correct - which I would certainly take issue with - nonetheless, your conclusion I agree with.

Mr FLETCHER - Could I just clarify the position you take with regard your reserves, some of this will be paid out of reserves. The reserves have accumulated through retained earnings, I suppose, in the past.

Mr KELLEHER - Yes, through retained earnings but probably, to a greater extent, through creation of value in the assets and our asset revaluation processes. This is one of the issues, I guess, with views of what return on investment one is getting from the HEC. Of course there has not actually been any investment in fact made; there has been no direct flow of equity funds into the business. It was debt funded and the operations of the business over time have actually increased the value so that there is an implicit equity, similar to when one buys a house ten years ago where there was some debt, but even if you kept the principle the house has increased in value and it is actually worth more. It is not so much return on investment as return on value that is now created. We have these accounting rate of return numbers in there but that is only picking out, if you like, the direct immediate cash numbers. What also is being created year after year is an increase in the future value of the organisation.

Mr FLETCHER - So the reserves are not cash reserves at all?

Mr KELLEHER - Those reserves are not, but we are generating cash reserves each year from this difference between the depreciation and the capital expenditure.

Mr FLETCHER - Okay. Can I then go back to the valuation method. We are here as a disaggregated unit of a former energy utility, and the driver for that disaggregation has been the national competition policy, as well as prudent business management. I accept that quite apart from competition there are

good reasons for disaggregating. But a substantial driver has been the national competition policy.

One would hope that as a result of that competition - we are lead to believe it is as a result of that competition - that prices will be driven down; that increased competition in the marketplace will drive prices down. So one could have a reasonable expectation that the energy Regulator is going to reduce the maximum price that you can charge for your wholesale product.

If that is so, then your valuation of the asset goes down because there is a link there. Your depreciation schedule goes down because you can depreciate the asset and therefore your capacity to pay the \$40 million goes down if, in fact, competition forces the Regulator to lower the price. Is that a fair assessment?

Mr KELLEHER - Well it is, except I guess to the extent that our valuation is in fact already reflected the expected outcomes of competition over the life of the assets. So it will not go down from where it is; it has perhaps gone down from what it would have been had not competition been something we would be facing in the future.

Mr FLETCHER - Well, can I go back and just clarify the point you argued with the chairman at an earlier stage. You said that the valuation was really a capitalisation of the revenue generated and that that varied as the revenue varied, the capitalisation asset varied also. My proposition is that as competition drives the revenue down, the capital value needed to generate that revenue is going to go down as well, therefore your valuation will go down.

Mr KELLEHER - Except that the capitalisation, as I think you quite rightly put it, is like the stock market: it is not past actions; it is expectations of future. So it is a capitalisation of future earning capability. So in that sense, the process that is gone through each year and signed off by the Auditor-General in fact looks at assumptions in relation to future prices.

Mr FLETCHER - So your projection is that the revenue of the Hydro-Electric Corporation is never going to go down in the future.

Mr KELLEHER - No.

Mr FLETCHER - Well, if it goes down does the asset value not have to go down?

Mr KELLEHER - One does not know. We have assumptions of prices in the future but they are assumptions of the future and prices may be higher or lower than those in the future. Each year, like the stock market, I guess the stock market goes up and down on a basis of prevailing industry and economic climate conditions.

Mrs JAMES - They were the sensitive areas Mr Rae referred to, such as ..., loss of a customer.

Mr KELLEHER - Those sorts of things could impact.

Mr FLETCHER - I would like to just carry this line of argument. The point I am trying to make is that we are where we are through the significant impact of the national competition policy. We accept that national competition policy will tend to drive prices down and so in the future the Hydro-Electric Corporation, as the generator and wholesale seller of energy, will likely have its price driven down.

Mr KELLEHER - I think one needs to just be a little careful of that. National competition policy has certainly driven prices down but the question is from where. Tasmania has been fortunate enough to have had very low prices as a base and other States have had prices that saw very significant reductions and some price falls did occur. As to the future, we believe that the prices that we are building in are conservative within the range of a fair value of the product, and have reflected what we believe the outcomes of competition will produce in the future.

The key issue for us, which we believe, is that we have actually the potential to increase our value over the future through things like Basslink which will actually unleash further capability of the asset in terms of its peaking capability and the green energy premiums that were referred to earlier. So rather than their value going down, I believe in fact there is a very real chance the value will increase.

Mr FLETCHER - Yes, but projecting the present situation - I will get onto the volatility of the assumptions in a moment because I think in the assumptions to which the chairman referred at an earlier stage there is quite a bit of volatility and I would like you to put some scenarios in regard to that in the next phase of my questioning. What I am trying to determine here is, if the present situation were to continue then the price of energy will likely be driven down by competition and therefore your asset base may be driven down by that fall in revenue. There will be other factors that will impact on that and I would like to go onto that in a moment to develop that further.

Mr KELLEHER - I believe that the price we are building in is sustainable for the future and will not reduce further.

Mr FLETCHER - Is the price you are building in greater or lesser or the same as the price presently being charged?

Mr KELLEHER - It is lower than the price reflected in the existing tariff structure, which was 4 cents. We are building into our projections - and we do not have one set of numbers, we have a range there, as indicated in the document - and assessing our capability to meet these dividend requirements within a range lower than that. What I can perhaps put to the committee, though, is that in fact nationally it is pretty clear that prices are in fact going to rise for wholesale energy prices.

I am sure the committee in its deliberations would have seen what has been going on in New South Wales and Victoria that there has been a steady increase in the wholesale energy price over that period, and forecasts are seeing that continue to rise to a level of between 3.5 and 4 cents. On top of that, our longer term outcomes are likely to see us extracting further value from some of the peaking plant that we have via Basslink where in fact projections are indicating at peak times one can then start to extract in the order of 5 cents or 5.5 cents. We have not built any of that into our projections, we have built the bottom case.

Mr FLETCHER - Can I ask then in relation to your base case most likely projections for the future, and ask either yourself or the chairman would they again spell out the assumptions on which that base case is built?

Mr KELLEHER - I think probably the best thing to do is to document that and provide that to the committee. We would be happy to do that.

Mr FLETCHER - Okay. At an earlier stage the chairman mentioned that there were certain assumptions and that is spelled out in the letter you have, they are just in general terms. Perhaps I could ask you to speak about some of those, although they have been mentioned in general terms in the past. We have given Basslink a bit of a run and I understand that that is a critical component of your forward projections. It may well provide very intense competition which drives your price down; it may well provide you with opportunities to increase your profitability so I accept those propositions. But it is based on the fact that Basslink provides you with the capacity to be an active player, trader in the market there. Is that guaranteed?

Mr KELLEHER - Is what guaranteed?

Mr FLETCHER - Is there capacity for Basslink to provide that opportunity for you to be an active participant in the market to be a trader in the mainland market?

Mr RAE - It is not yet determined what would be the character of Basslink, whether it will be a regulated or unregulated or a hybrid connector. That will govern the situation to an extent, but in summary it is guaranteed, I believe, that we will be able to take advantage of Basslink. In exactly what way it will wind up we are not yet clear.

Mr KELLEHER - We, for example, may not be in one of those forms the active trader ourselves but there would be an active trader who would then need to pass back the value to us, which is enabling them to operate.

Mr FLETCHER - I see.

Mr RAE - Tasmania and generation from Tasmania can gain an advantage.

Mr FLETCHER - So your preferred option would be for Basslink to be a deregulated development.

Mr RAE - Our preferred option is probably something which is being discussed with the Basslink development board and the proponents will be having to take into account the various ways in which the State may be advantaged and in what way the Hydro, as a State-owned instrumentality, can be advantaged. There are several alternatives and they are at the moment subject to negotiation.

Mr FLETCHER - What you are saying to me, chairman, is that you are in negotiations, you do not want to divulge your preferred option.

Mr RAE - Yes.

Mr FLETCHER - Your preferred option, if accepted by the eventual Basslink developers, would obviously increase the profitability of the Hydro-Electric Corporation.

Mr RAE - Yes.

Mr FLETCHER - Would you therefore consider being an equity partner in Basslink?

Mr RAE - Yes.

Mr FLETCHER - Can I then move on to an issue with regard the financial viability of the Hydro-Electric Corporation into the long-term future and ask you questions with regard HECEC? My memory suggests to me that that was a matter of concern during debate in the Parliament at an earlier stage and there were substantial tensions between the old Hydro, for the want of a better name, and the private HECEC with regard the capacity of the disaggregated bodies to meet their obligations under the contractual arrangements. Does that pose any potential threats to the Hydro-Electric Corporation at this time or at any time in the future?

Mr RAE - There is litigation which is unresolved. The resolution of the litigation may be to a greater or lesser advantage of the Hydro or of HECEC Australia Pty Ltd. I believe that as the litigation is pending it would not be proper to take it further than to say that we believe that what we have done and the opportunities which are available are in accordance with the contractual arrangements.

CHAIRMAN - Have you finished that line of questioning, Mr Fletcher?

Mr FLETCHER - I was just testing. Quite a bit of this information is obviously being clouded with the commercial-in-confidence and I have to respect that. A lot of the issues impact upon the volatility of the assumptions. How sound your assumptions are determines how well you can pay the dividend in the future.

Mr RAE - Can I give you an answer in this way, Sir. We do not expect that the outcome of the litigation in which we are involved will have a long-term adverse effect on our capacity to be able to perform as a business.

Mr FLETCHER - All right. Can we just tick them off then? The best estimates of the board or of the corporation is that Basslink will have a very positive impact upon the cash flows, the profitability of the corporation?

Mr RAE - Yes.

Mr FLETCHER - And that is of no great concern to the corporation because 100 per cent of the after-tax profits will go straight to Government, so it will be potentially a substantial boost to the owners rather than to the corporation as a separate entity.

Mr RAE - We believe also to the assets, to the growth opportunities - there are asset growth opportunities arise out of it as well, as well as trading opportunities.

Mr FLETCHER - And the further generation development.

Mr RAE - Further generation development; equity participation to which I have already referred; the growth of opportunities interstate; there are a number of opportunities which -

Mr KELLEHER - Perhaps if I could just comment, though, in terms of your comment about given it all passes through it is of no great concern to the corporation, it is our primary purpose really under our charter to maximise the returns to the State. We are basically there and, as Mr Rae has indicated, we have gone through a long process of determining our directions and a driving force of that is for us to increase and add value to the Tasmanian community through our operations and our returns.

Mr RAE - And we believe that we have confidence that we can achieve that.

Mrs JAMES - The committee has been assured that there are no difficulties meeting the special dividend over the ten-year period but I take it if there were any unforeseen factors arise that it is possible to negotiate with the shareholders probably a more reasonable figure.

Mr RAE - It is probably desirable to just point out again, as I did in the submission, that the dividend is not something which has been fixed for ten years, but it is something which is fixed annually by a direction by the minister which has to be approved by Parliament. It is a matter for Parliament to acquaint itself of what the facts are and then decide whether it wishes to approve the direction. The Hydro, if it receives a direction, complies with it provided Parliament has approved it.

Mrs JAMES - Any responsible government I do not think, be it Labor, Liberal or whatever, would not make impossible demands -

Mr RAE - I could not disagree with that.

Mrs JAMES - and also I think you made the point that your asset values will increase and I take it there is a progressive debt reduction at the present time, although you may have to pay more as an equity partner in Basslink.

Mr RAE - It has been stated in the basic submission the rate of reduction of debt will be slow but we will still reach the required levels probably two to three years later than we would have otherwise.

Mrs JAMES - Do you borrow through Tascorp?

Mr RAE - Yes.

CHAIRMAN - On the debt taking longer to address and to get down, as that happens, nevertheless, would you not be positioned very, very favourably against your competition in your hydro schemes with such low operating costs compared to the general circumstance of most mainland schemes in coal. You are only having to compete against coal, so once your debt is under control you will be able to go to the other end. You could be in a position where your returns are way above normal commercial return and, hopefully, for you the Regulator still takes the same approach in setting a competitive maximum with other States which could allow you - I suppose there is potential there for you - to then be getting double the return on your capital which you are currently receiving.

Mr RAE - Well, that is certainly a possibility which -

CHAIRMAN - Would you see that is realistic or likely?

Mr RAE - I would say it is a realistic possibility but it is not possible at this stage of the development of the marketing nationally to say with confidence what the outcome will be and at what rate it will be achieved. At the moment there has been an excess of supply and that is being soaked up. The price is likely to therefore firm. There are opinions around the electricity trading community that the low prices which you have been seeing, which were not as low as some people expected, are likely to tend to increase and that will be to our advantage because, as you say, we have a very low cost of generation from the point of view of fuel in comparison with those which require another form of fuel such as coal, gas or whatever it maybe.

CHAIRMAN - So it has really been debt that is holding you back a little bit in terms of being very, very competitive.

Mr RAE - We are very anxious to steadily reduce our debt to improve our position.

CHAIRMAN - So the debate is essentially over the rate of debt reduction.

Mr RAE - Yes. We see the position, as set out in the submission, that we will be continuing to be able to reduce debt from a position where we, at disaggregation, had the highest proportion of both assets and debt. We believe that we can service that debt and reduce it and we have already outlined the difference in the rates at which we expect to be able to reduce it depending upon the \$40 million or not.

CHAIRMAN - Your submission seems to suggest you would prefer to, as a board, reduce your debt at a faster rate than this \$40 million dividend will now allow.

Mr RAE - No, Mr Chairman, the submission was not intended to express a view either way. We accept what are the requirements given to us by the Government of the day. We then endeavour to perform to the best possible advantage in the management of the business in accordance with those.

CHAIRMAN - So the board does not take a view on the debt reduction program as it ought to be.

Mr RAE - We wish to reduce the debt as quickly as we prudently can but if the Government of the day chooses to have a particular approach to it, whether it be to disaggregate, to privatise part or to require a dividend, that is matter for Government and Parliament and we play within those boundaries which have been set for us.

CHAIRMAN - You cannot have an opinion on that then.

Mr RAE - I do not think it is our function to have an opinion on it. We have an opinion about them as you might have gathered - quite a strong opinion - as to the efficiency with which we can run the business.

CHAIRMAN - If you of course reached a point where such a dividend called was not sustainable then you would probably develop an opinion then.

Mr RAE - We have an obligation to report. We have under the legislation an obligation to report to the minister any factor which may affect the operational efficiency of the business and if we had the conclusion that a requirement would adversely affect the operational efficiency of the business then we would be bound by statute to report that to the minister and he then has to report it to the Parliament.

Mr KELLEHER - I think probably you could add that the debt equity level in the organisation of around 40-60 compares well to other commercial entities operating in our industry.

CHAIRMAN - I guess that is a key indicator to the whole game, is it not? Are members finished on that line? Perhaps Mr Rae might be in a position, unless they want to continue on those lines and then go back to the other matter.

Mr FLETCHER - Just to clarify a couple of points, in relation to the asset maintenance depreciation schedules, Mr Kelleher stated that there were certain benchmarks and certain written evidence that he could make available to the committee to show Tasmania's permanence in that field. Further on page 3 of your submission to us, you state that from time to time you have external operators, consultancies, consider your asset base and the age of the asset base and make recommendations and do assessments of your performance. I wonder if you could make the most recent of those documents available to us so that we could consider the expert opinion in relation to that matter.

I am interested in the assumptions - and you did give me an indication that you would provide some written advice in relation to that - the chairman at an earlier stage related to the wholesale energy price, interest rates, loss of major customers and therefore market share, level of hydrological support from the operational use of Bell Bay and purchasers from the national grid. I see those factors as contributing to the volatility of the assumptions, regardless of what they are, and I would appreciate an assessment of those factors and the level of volatility showing both the positive and negative potentials of those impacts into the future, if that can be made available to the committee.

Mr RAE - We could make available a best attempt to comply with that subject of course to the fact that any such assessments are attempts to look into a crystal ball but of course we do make projections and we can give you the parameters of the projections which we have made.

Mr FLETCHER - I am sure you will agree with me that we are here representing the owners, the people of Tasmania, and we would like to feel confident about the direction in which we are heading and I know you will support me in relation to that.

Mr RAE - Certainly.

Mr FLETCHER - I think the board has a duty to its owners and to others with whom it trades to be prudent in their management and to consider both the positives and negatives of the future and indeed to try to identify if there are any negatives on the horizon which prudent management ought to take account of. That is the sort of information I would like you to make available.

Mr RAE - Certainly.

Mr CHEEK - Just on that point too, Mr Chairman. Of the assumptions there, which do you consider to be the most sensitive to affect the performance of the Hydro? Would the wholesale energy price be the one that would affect it the most?

Mr KELLEHER - I think we have undertaken a test against that of a feasible range. So we have pretty well covered that off in terms of our, I guess, testing the robustness of the dividend scenario against that. The one at the end of the day I think that would really be difficult to manage would be a drought situation. We are in the fortunate position at the moment of our storage levels being in good order.

Mr RAE - It is hard however. If I can just postulate something, without in any way wishing to suggest that it is a likely possibility, but if you had the most massive blow-up of Comalco's operations - and they are taking over 270 megawatts - if they suddenly were unable to continue to operate, that of course would have a dramatic effect on the income of the corporation. Everything is a matter of what is the real likelihood of it happening, and I do not regard that as being likely but it would have a very dramatic effect if it did happen. If Temco suddenly ceased to take the 100 megawatts which they are taking it would have a significant impact. So those major customers are an important component.

The drought has always been, I suppose, the worst real fear that those who operate a hydro system have to have regard to. You get long-term low rainfall and you have lost your fuel supply and the whole of your economics of operation have been disrupted.

Mr CHEEK - How many major customers are there?

Mr RAE - Nineteen.

Mr CHEEK - For how long do the contracts go? They vary from what to what?

Mr RAE - They have mostly been renewed in recent time and so the average is out to about 210. I think 208 to 210 at the moment is about the average length, but we can check that for you. That is my quick estimate as to when is the average length.

Mr CHEEK - You were saying that interstate wholesale prices have been creeping up recently so you would expect that wholesale prices here would also be put up a little bit by the Regulator if that in fact is occurring interstate.

Mr KELLEHER - I guess what I am saying is that those prices that have really been artificially low for a couple of years in the New South Wales/Victorian experience will move up to what a long-term sustainable rate is, which is about what we have been -

Mr CHEEK - What you have been at the present time?

Mr KELLEHER - That is right.

Mr CHEEK - Do you expect your prices to be able to move up or the Regulator would put them up over a period?

Mr KELLEHER - I guess in the future this present arrangement, with the Regulator determining them, will dissolve as Basslink opens us up to competition.

Mr CHEEK - But while the Regulator is there, he will take that into account, the fact that they have been going up interstate. So you would be hopeful of an increase in prices here.

Mr KELLEHER - Not an increase but the prices that are prevailing here prevail. So we do not actually see them going up. As I said before, the price here previously was in fact higher for the wholesale energy component and that has come down a bit, but in the meantime the other States are coming up to that level.

Mr CHEEK - You benchmark against the other States, I take it?

Mr KELLEHER - Pricing?

Mr CHEEK - Pricing and also costs.

Mr KELLEHER - Little to compare on an apples to apples basis on the cost side with other States because of course our operation is quite different. As the chairman indicated before, we will be competing against thermal generators with quite different assets and operations, so our benchmarking is more against other hydro utilities from around the world.

Mr CHEEK - How do we compare there on costs?

Mr KELLEHER - We compare very well.

Mr CHEEK - So, above average?

Mr KELLEHER - Top quartile to top 10 per cent, that sort of order.

Mr CHEEK - Where are we worse than the international companies?

Mr KELLEHER - I cannot think of anything.

Mr CHEEK - So we are right up with the best overseas in every department?

Mr KELLEHER - I think overall that would be our assessment.

CHAIRMAN - I have a few questions that come to mind as a result of those questions. In your old reports one could calculate the average cost of energy to the bulk consumers because it gave the revenue from bulk consumers as a total and the energy consumed by them and that was generally public. Is that still available - the amount that you are receiving per unit on average from your bulk consumers? Or is that part of commercial-in-confidence? So you have an idea of where I am coming from, what I am looking at is that if that is, as I would expect, a substantially lower figure than the wholesale price that is going to be set at something approaching four cents a unit one would think and that is substantially lower and comparably lower than bulk consumers in other States, that would mean then that the small commercial retail sector would end up with - subject to Transend and Aurora being normal, if you like - higher energy charges at the consumer end than would be the case in mainland areas. In other words, very low bulk contract prices means somebody else has to pick up the balance. What is the situation there?

Mr KELLEHER - All these contracts are in fact with Aurora, not us. We just basically sell the raw product. So probably it would be best off following that up with -

CHAIRMAN - We had better follow that up with them, in other words. You just get the one price per unit for every unit you sell under the Regulator's determination.

Mr KELLEHER - No, the arrangements at this stage are that the Regulator will not be recasting existing contract rates but will be coming to a view as to the wholesale rate that is appropriate for the retail sector. The wholesale contracts obviously are in place now and the money goes into Aurora and then there is a deduction from those contracts of their relevant components for the transmission charge to Transend and a margin and we derive the balance.

CHAIRMAN - The wholesale rate that the regulator will be setting for you will only be that power that flows from you to all those who are non-bulk consumers?

Mr KELLEHER - That is as I understand what will happen.

CHAIRMAN - And the other is dealt with on another line item, if you like, in the accounting process?

Mr KELLEHER - Correct. Over time of course as competition is opened up and principally through Basslink then the one process will apply. The market will set the rate and there can be different rates as there are operating in the national market. There are risk positions to take and those that want to tie up long-term contracts over long periods of times could end up with different prices than those that want to take a very short position, but the market will determine those.

CHAIRMAN - Will you have an ability to sell as and when power in terms of - that will all go through Aurora? In the past the Hydro have been in situations where we have had a heavy rainfall for a short period of time and the run of the river stations all have surplus and if you cannot get somebody to increase their load it is lost energy. So you have often sold off power at cheap rates at those times. Will that still be achievable?

Mr KELLEHER - That is a very good question. That is indeed one of the aspects of the upcoming pricing investigation that we are very keen to see, notwithstanding setting some certainty for some processors to enable opportunities that are of benefit to everybody to be taken advantage of in those sort of situations. So, for example, our present arrangements see some opportunity energy arrangements where for short-term periods for taking into those accounts that lower prices can apply for that period and which customers and the electricity entities can all benefit from.

CHAIRMAN - And the other end of it, with cogeneration, that is all dealt with by Aurora where an industry perhaps is able to cogenerate? Or another player comes into the market; somebody might want to build a small hydro station.

Mr RAE - There are plans in relation to experimental cogeneration which are being undertaken and they are being undertaken with the Hydro as a generator and another cogenerator to work in a joint

venture approach to develop an output which will be generation output.

CHAIRMAN - I see. I think you said that is being dealt with on a joint approach. There is no prospect of competition coming in in that manner?

Mr RAE - There could be.

Mr KELLEHER - There is nothing to prevent it and indeed it would be expected as we now move forward for opportunities to be taken.

CHAIRMAN - You being a competitor in the market then would be doing what you could to minimise that or price it out of operation, or whatever else people in the commercial world do?

Mr RAE - Play it with a very straight bat, sir, of course.

Mr KELLEHER - We welcome competition.

Mr CHEEK - What has been your average wholesale price over the last twelve months?

Mr KELLEHER - It is around about 3.5 cents.

Mr CHEEK - Right at the lower range, 3.5?

Mr KELLEHER - Yes, 3.6 to 3.5.

Mr RAE - Mr Chairman, through you, if I may answer another question that Mr Cheek asked earlier. I answered that I thought it was about seven or eight; it is about six to seven is the average covered by the long-term contracts. Mr Warnock, who is the general manager business development, I have checked with him and he told me six to seven is the answer - slightly shorter than I thought.

Mr CHEEK - So that 3.5 cents you would be confident of that going up over the next twelve months from what has been happening interstate? You have a maximum price set of 4 cents.

Mr KELLEHER - Yes, that is the price set. The average is impacted by the high storage levels so that some of the product that we have sold on a short-term basis, along the lines we talked about earlier, can impact it. The current price set in the tariff component is the 4 cents and our projections, as I say, have been based on looking at between 3.5 cents and 3.9 cents.

Mr CHEEK - So does Aurora pay a set retail margin on that, whatever the actual price is, whatever it may be, whether it is 3.5 cents or 3.6 cents? A retail margin, yes - on top of the price they pay to you. I know that is a question probably for Aurora but I thought you would probably know anyway.

Mr KELLEHER - The arrangements are basically that the price at the end of the day to the customer is built up, I guess you understand, on the basis of a wholesale price. The transmission charge, the distribution charge and a retail costs plus a margin -

Mr CHEEK - Yes, that is what I was getting at: is the margin set at a certain percentage regardless or does that vary?

Mr KELLEHER - The Regulator will set the margin.

Mr CHEEK - Yes. So whatever price they charge, the set and retail margin goes on top.

Mr KELLEHER - The margin is included within the price and the Regulator will determine the margin.

Mr RATTRAY - Mr Chairman, I would like to ask a question.

CHAIRMAN - Yes, Mr Rattray and then we will see if we can get back to that other matter that you probably have the information here for now.

Mr RATTRAY - I was wondering, Mr Rae, perhaps because you were talking about joint ventures generation, is there any potential within the State for more generation of hydro power likely to be looked at? We are talking about Basslink, we are talking about all the other things and there seems to be plenty of water running away to the sea in many places. Are there any possibilities at all or have you looked as a board at the possibility of doing something along that line into the future?

Mr RAE - There is a further review underway at the moment in relation to that. The possibilities of anything from medium-sized hydro, at what may be a relatively high cost, to mini-hydro are all being examined and re-evaluated. Just to use an example, there has been work being undertaken to look at what is the hydro potential at Warners Creek dam as opposed to its value for irrigation and water supply, and for the quality of the environment of the Mersey River. That is one specific one. That work

is being undertaken under an umbrella which is comprehensive in relation to it.

Mr KELLEHER - I think probably the key thing that has changed over recent times has been the mandated renewables policy arising from the Kyoto arrangements, and that can provide some mechanisms in the future to make viable what previously would not have been commercially viable schemes.

CHAIRMAN - And the disaggregation allows you to focus better on those matters and ensure that - the committee receives a lot of information on undeveloped hydro resource in Tasmania previously and there it appeared a lot more work needed to be done.

Mr KELLEHER - And which we have now been ramping up activity.

CHAIRMAN - It is pleasing to hear that - a good question. Perhaps, Mr Rae, the committee might go back to -

Mr RAE - Are you proposing to have an adjournment during the morning? If you are -

CHAIRMAN - The morning? The morning has only about eight or ten minutes left. Members of the committee have other commitments, I need to adjourn at 12.30 p.m. and then we would be looking to continue, as that would probably be necessary, at -

Mr RAE - The note I have received is, could I please have a word with the general manager, business development, who was involved in the negotiation of this before I take it further. I do have a copy of the document but I would just like to see what it is that he would like to tell me.

CHAIRMAN - That would not take too long, I would imagine. I will declare this sitting to be adjourned for -

Mr RAE - Two minutes, as far as I am concerned.

CHAIRMAN - Yes, for as long as is necessary then, and you will give us the nod and we will resume. Thank you.

SHORT ADJOURNMENT

CHAIRMAN - Mr Rae has had the time he has required. I think we will declare the hearing resumed and allow Mr Rae to present his information to us.

Mr RAE - Thank you very much, Mr Chairman. I have had the opportunity to retain the actual document which is the terms of engagement with the adviser who was engaged by the Hydro-Electric Corporation to advise in relation to the Duke agreement. I was asked what were the fees which were paid and I can indicate that it was a relatively small amount in that it was \$13 410.90. It was not a huge fee.

The terms of the engagement included these words: 'The primary purpose of the opinion was to provide the board of the client with an expert independent opinion as to whether the proposed MOU reflects a reasonable commercial arrangement within the context of the client's desire to achieve a commercial benefit for the HEC. It is presently contemplated that the opinion will be for the internal use only of the client's board. Further, it is intended that the opinion be kept confidential within the client. If circumstances change and the board wishes to publicly release or otherwise refer to the opinion, its contents or its conclusions, the prior written approval of the consultants would be required'.

There is a further provision which says: 'Any written advise or report that we provide in connection with the assignment is given solely for the client's benefit. Except without prior written consent, no copies of or extracts or conclusions from, or any such advice or report may be given to or relied upon by any other person filed with a government, ratings or other agency, placed on a publicly accessible register, database or Internet service or quoted or referred to in any public document or statement, provided that this section shall not limit compliance by the client with any reporting or accountability or other legal obligations, including the requirements of government acts and parliamentary obligations, or the provisions of information to the client's responsible minister. Provided further that only the client may rely on any advice or report'.

There is a further provision which says: 'In the event that the assignment is publicly disclosed, the consultant shall have the right to disclose its participation in the assignment following approval by the client'. Those were the terms of the contract as it was finally negotiated for the provision of the advice.

One of the matters which I asked the committee to take into account as to whether they would take the name in confidence or whether they required it to be given publicly, is that if it is given publicly it will impede, or be likely to impede, the capacity of the Hydro to be able to obtain advice in the marketplace from the best people available. They, after lengthy negotiation, required conditions such as that which were negotiated conditions. They required that it be on those terms. If we are not able to honour those terms then it may be that we shall have to get advice from people whose standing in the marketplace is lower, less and who do not rely.

It is a consideration which I ask that you take into account; I can do no more than that. I was duty-bound under the terms of the engagement to raise with you these particular provisions, and I do ask

that the committee, Mr Chairman, give consideration to taking the name in camera, simply because I do not want to see, we do not want to see, our capacity to engage people such as this - and they are one of the big names in the world - for future advice. If we disclose it and they become displeased then our opportunity to get their advice in the future may well be limited.

CHAIRMAN - Thank you, Mr Rae, for giving that information to us and to giving us in public rigorously the reasons why you believe that is necessary. The committee is probably quite familiar with such disclaimers and non-disclosure clauses on a lot of documents. I did note the amount, and the committee would have noted the amount is relatively low, but also that there may well be approval given by the consultant if you make that request to them.

Mr RAE - Yes, and we could do that.

CHAIRMAN - You would not have a problem about doing that.

Mr RAE - We would have no problem in making that request to them and relaying to them what has happened this morning and asking whether they would give their approval.

CHAIRMAN - So the matter then is that the committee has heard Mr Rae on this matter and it is now up to the committee to decide upon further questions.

Mr FLETCHER - I would like to ask a couple of questions. I wonder would the chairman recite again the specific provision that prevents the naming of the consultant in public.

CHAIRMAN - Rather than the content.

Mr FLETCHER - Rather than the content, yes.

Mr RAE - What I am told was the understanding was we would seek to obtain their agreement in writing before disclosing the name and that that was one of the variations of the term which got down to 'in the event that the assignments is publicly disclosed then the consultant shall have the right to disclose its participation in the assignment following approval by the client'. At first there was a total barrier. It finished up with the provision, to which I have already referred, which is that we can obtain the consultant's prior written prior approval.

Mrs JAMES - They may say 'No'.

Mr FLETCHER - With due respect, Mr Chairman, in response to an earlier question the chairman explained to me that the non-divulgence of the name was a matter of attrition in the late hours of the debate and there was a tough battle before the negotiators agreed that the name would not be released to the public. I have asked for the specific item in the agreement that specifically prevents the board from releasing the name of the consultant, a very minor matter, the name of the consultant surely. But I was told earlier that there was a specific provision that prevented that from happening and it was a matter of some attrition during the negotiation stages before agreement was given to that. I want to ask again: is there a specific provision in the agreement which prevents the release of the name of the consultant?

Mr RAE - Mr Chairman, again, it is presently contemplated that the opinion will be for the 'internal use only of the client's board. Further it is intended that the opinion shall be kept confidential within the client. If the circumstances change and the board wishes to publicly release or otherwise refer to the opinion' -

CHAIRMAN - So it is the opinion that is the key.

Mr RAE - 'its contents or its conclusions the prior written approval of the consultant would be required'. And then what was subject of some discussion was that any written advice or report that we provide in connection with the assignment is given solely for the client's benefit and then the remainder of those terms. And I finish up with saying 'this section shall not limit compliance by the client with any reporting or accountability or other legal obligations including the requirements of government acts and parliamentary obligations or the provision of information to the client's responsible minister, provided further only that the client only may rely on the advice or report' -

Mr FLETCHER - It seems to me, Mr Chairman, that there are two aspects here. There is one about the release of the name to the public and I conclude that there is no prohibition to the release of the name in that agreement. Secondly, I would like the chairman to read more carefully for me again, because I do not have a copy of that report, the provision that applies to a special exclusion where there is an obligation, a parliamentary obligation, to make information available. The chairman referred to that on a couple of occasions and it seems to me that my reading of what he said was that there is an obligation, a parliamentary obligation, to release the information then it is a specific exclusion under the agreement to make that information available.

Mr RAE - The wording, Mr Chairman, is: 'Except without prior written consent, no copies of or extracts or conclusions from any such advice or report may be given to or relied on by any other person, filed with a government, ratings or other agency, placed on a publicly accessible register, database or Internet service or quoted or referred to in any public document or statement, provided that this section shall not limit compliance by the client with any reporting or accountability or other legal obligations, including the requirements of government acts and parliamentary obligations or the provision of information to the client's responsible minister. Provided further that only the client may rely on any advice or report' and then a further bit there is: 'In the event that the assignment is publicly disclosed, the consultant shall have the right to disclose its participation in the assignment following approval by the client'. Those are the exact words.

Mr FLETCHER - It seems to me that that is a very standard clause in an agreement which protects the giver of the information from any litigation in the future because other people might take that information, rely on that information and then make wrong or incorrect judgments as a result of that. So the client consultant is protecting their intellectual property by specifically excluding anyone from using that information, other than the client, but also saying but where there is an obligation by the client to provide certain information to the Parliament then they are free to do so. That seems to me to be the way that that should be read.

CHAIRMAN - The other element in it too, of course, is what is in confidence is their report and their opinion rather than the names of who has done it.

Mr RAE - The name of the consultant for various reasons, which are also set out here, is part of the reason why I simply ask whether we can endeavour to avoid the problem by asking for their approval, pointing out what Mr Fletcher has just said, and seeking to have this done without any potential adverse repercussions so far as the Hydro is concerned. I ask for the cooperation of the committee in that respect. I am not seeking to avoid -

CHAIRMAN - No, we appreciate that. Other members might want to ask questions or make comments.

Mrs JAMES - I would like to make the point that the consultant's name would necessarily be part of any agreement and it would be written into it, so if that were to be released the name would also be released.

CHAIRMAN - The name would also exist outside the agreement too in terms of its compliance.

Mr CHEEK - Mr Chairman, I just wanted to ask Mr Rae how long he considers it would take -

Mr RAE - Twenty-four hours.

Mr CHEEK - Twenty-four hours to get the permission of -

Mr RAE - Probably less, but if I may say 24 hours.

CHAIRMAN - Well, I think that is the best course.

Mr KEN BACON - Mr Chairman, it would seem that if approval is given then the company would have the right to address the committee as well, to pick up Mr Fletcher's point that anything they have done they hold the right to give an explanation so it is not used incorrectly.

CHAIRMAN - Any other questions. If not, it would seem to me the committee feels an appropriate path - I do not know unless I get a motion from the committee to test it, that we proceed to make a request.

Mr FLETCHER - Mr Chairman, I move that the committee stand adjourned sine die to allow certain information requested by the committee to be provided by the Hydro-Electric Corporation.

CHAIRMAN - Do members of the committee wish to comment on the motion?

Mr RATTRAY - I think, Mr Chairman, that we should allow the HEC chairman, Mr Rae, to have that opportunity to provide the information, as I said earlier in the day. I think that is most important and if they can come forward with that and it leaves no black hole or no further discussions down those sort of tracks I think that is what we should do. So I am supportive of giving the HEC the opportunity to do that.

Mr CHEEK - Mr Chairman, my only comment would be why -

Mr FLETCHER - Is there a seconder to the motion? Yes, Mr Bacon. Continue, Mr Cheek.

Mr CHEEK - it takes 24 hours to be able to get permission. I realise it may be an overseas company but with faxes and phones I thought it would be much sooner than that.

Mr RAE - I expect it to be within an hour. I said 24 hours because one never knows. If you give an undertaking for an hour you can have a problem. I was going to ask, Sir, are you proposing to be sitting this afternoon at all?

CHAIRMAN - Whether we sit this afternoon was dependent on whether our committee had exhausted itself on its questions. I was looking to adjourn at about 12.30 p.m., which could even be now, and resume at around two o'clock.

Mr RAE - I will do everything possible to get the approval by two o'clock and expect to be able to.

CHAIRMAN - Perhaps then I could adjourn the meeting now if members are happy with that. The motion is that we adjourn sine die and we would then look to resume at 2 p.m. this afternoon or thereabouts, and we will keep in contact on that matter anyway.

Motion carried.

CHAIRMAN - We will declare the hearing to be resumed and give the floor to Mr Rae.

Mr RAE - Thank you very much, Mr Chairman. The position is that we have made inquiries during the recess of the authors of the advice which we received, which was to the effect that the arrangement, the MOU that we have entered into, with Duke Energy is a commercial agreement, appropriate commercial agreement, and the people who provided that advice have authorised us to release their name, notwithstanding the previous desire expressed by them for totally commercial reasons. There was nothing sinister. The name is BT Wolfensohn, and that is a division associated with Bankers Trust, of Collins Street Melbourne. A couple of the people who are with that organisation now were previously consultants to us in relation to the Comalco negotiations and were quite closely involved with the Hydro in relation to those. They therefore have a background of information and therefore they were our desired advisers, particularly in a situation where a number of others were disqualified because of conflict of interest.

CHAIRMAN - Thank you very much for that, Mr Rae. I think it was Mr Cheek who was seeking that information in the first instance on his questioning. Did you wish to continue further in relation to that particular issue in terms of that particular advice?

Mr CHEEK - No, I do not think so, Mr Chairman. I thank Mr Rae for providing the name and I think it could have been given in the first instance, but I understand that you were trying to protect the confidence you have given.

The amount of \$13 910, there must have been a fairly short period of time they spent on it. A fairly simple matter or did they do it for a very good price, or did you beat them down in price when you were talking to them?

Mr RAE - A bit of each.

Laughter

Mr CHEEK - It seems a very low amount for a fairly critical analysis. Two hours?

Mr RAE - No, I can say that it is considerably more than that. It is more than a week's work at their charging rate. But they did have a lot of information provided to them and they did have a lot of prior information available. Without doing a calculation of exactly, it was certainly more than a week's work and in fact it was done, relatively speaking, in a compressed period of time because we were anxious to obtain the assurance after the time that the MOU had been negotiated and whilst people were anxious for it to be announced.

It also had to be subject to approval by the probity auditor who had to be convinced that there were appropriate safeguards. There are complications into which I do not think it is necessary to go in detail but any of these things at the moment do require quite a bit of consultation and checking that it is all in order to engage people to do particular jobs when there are so many things happening in the energy industry and so many potential conflicts of interest.

CHAIRMAN - Thank you, Mr Rae.

Mr FLETCHER - Mr Chairman, I would like to take this issue a little further. I recall the provisions of the agreement presented to the committee by the chairman of the HEC at an earlier time and my judgment is that the situation most recently explained by the chairman is in concert with the agreement in that there was no limitation on the divulgence of the name. But, further, I believe that the provisions of the agreement contain no impediment that prohibits or limits the chairman from revealing to the committee the content of the report. There is clearly an obligation being placed on the client, the HEC, by this committee - or I trust there will be - and whilst I think it is important that information not be divulged to the public generally, I believe where we are testing the commerciality of the agreement with a third party, that the committee representing the people of Tasmania be aware of and confident about the advice that has been given with regard the commerciality of the agreement reached with Duke Energy.

I therefore move that the committee go into camera to take further evidence from the chairman and his advisers with regard the detail of the BT Wolfensohn report on the commerciality of the agreement between the Hydro-Electric Corporation and Duke Energy regarding the future operation of the Bell Bay power station.

CHAIRMAN - I have a motion now before the Chair from Mr Fletcher that we move into camera to enable further questioning on this matter. Do any members of the committee wish to speak to that motion?

Motion carried.

Evidence taken in camera.

CHAIRMAN - I declare the session to be continued in public which is our normal form. I think Mr Cheek had a few questions remaining he wished to ask.

Mr CHEEK - Just a couple, Mr Chairman, thank you. Just for my own peace of mind really - and they will probably sound fairly basic questions. Mr Rae, what would the Hydro do if the Government said they wanted a special deal at the end of \$60 million, for instance, if they decided to raise the amount? You would be duty-bound to act on that?

Mr RAE - There is a duty which is a statutory obligation on the Hydro to bring to the attention of the minister any matter which may adversely affect the commercial operations of the Hydro as a business. If we received a direction which was beyond our capacity to perform then we would be duty-bound to point that out to the minister. Where we do take those steps, there are certain consequences which flow and it becomes really a matter for Parliament.

Mr CHEEK - But at the end of the day, if it was a parliamentary decision, you would have to carry it out -

Mr RAE - If it was a parliamentary decision.

Mr CHEEK - pointing out the detrimental aspects of it.

Mr RAE - Yes.

Mr FLETCHER - Could I just clarify that. The board would be derelict in its duty if it took an action - even if it was an action directed by the owners - to place the business in jeopardy, surely. You would resign rather than carry out the action.

Mr RAE - What we would personally do is a matter for each of the people individually. The statutory obligation is to draw it to the attention of the minister.

Mr FLETCHER - But does your fiduciary duty not extend wider than just being to the owners? Do you not have a duty to your customers, staff and other people you do business with?

Mr RAE - There are consequences of drawing it to the attention of the minister and it becomes really the responsibility of Parliament in the ultimate, the same as a direction is the responsibility of Parliament. A direction, when given, has to be tabled in Parliament and either House of Parliament may disallow the direction. If, for instance, the Hydro believed that a direction would be so damaging to the interests of the business that it had to respond by way of a notification to the minister, that notification becomes a matter which is published in Parliament and then it is a matter for Parliament to resolve.

Whether the individual director remains or does not remain a director is a separate matter for them but, yes, they do have both a statutory and general duty to look to the interests of not only the Government and the Parliament but also to the business as a whole, and its customers.

Mr FLETCHER - So your conclusion is, as chairman, bearing in mind what you have just said, is that the corporation has the capacity to pay \$40 million a year in special dividend into the future on a sustainable basis.

Mr RAE - Subject to the matters to which I have referred in and that is on the assumptions given, there is the capacity to be able to do that.

CHAIRMAN - As outlined in the submission.

Mr CHEEK - I think you said earlier, in response to a question from Mr Fletcher, that you did not know of any other electricity utility or anybody in power generation or any other company, for that matter, that would be forced to pay out 100 per cent in dividends and also a special dividend of \$40 million, or anything similar. For any company, it is a fairly harsh regime to be acting under.

Mr RAE - What I think I said was that I was not aware and I think Mr Kelleher said he was not aware, but we would endeavour to find out. We will check through the ESAA and we will inform the committee. Mr Chairman and Mr Cheek, we will let you know, if we do, what is the result of our inquiry.

Mr CHEEK - Yes. I know you have done projections. Have you done a sensitivity analysis where you have a worst case, best case, middle case on all your projections? It is fairly commonplace, I would assume you would have done that - a high case, low case, middle case. What does the high case tell you if some of the things you have mentioned in your assumptions unfortunately come to fruition?

Mr RAE - All of them are matters of where do you draw the lines for the high or low case. What we did was conclude that on a reasonable assessment of the risks, the conclusions which we have outlined in the paper were those which could be drawn. But if - and I used an example this morning - we lost a huge major consumer then that would change the position; if we had a drought that would change the position quite dramatically. Any of those vary according to how serious they are, so in our high case, low case projections the only conclusion that you could draw really was that provided there was not something extreme in those cases then we would be able to service the requirement.

Mr CHEEK - Would you be able to provide the committee with the numerical details of that high case in the scenario in the sensitivity analysis?

Mr RAE - I remember it being done, I cannot recall whether it was done on an overhead slide or whether it was done on an oral description. Can I take the question on notice and see what information

I can obtain? I just do not remember. It was done some months ago and I know we have been through it but I cannot remember.

Mr CHEEK - I think it is fairly critical to the committee in respect we are inquiring into whether you can sustain a \$40 million dividend, and we would like to know those scenarios because it has a large bearing on our consideration because those assumptions that you have put there, if one or two of them came true, would have fairly dire effects and we need to know what that worst case scenario would be.

Mr RAE - I think we have already undertaken to provide some further detail in relation to those particular base assumptions and can I incorporate your request now, together with the earlier undertaking, and provide something that we believe complies with both of those requests.

Mr CHEEK - Thank you.

Mrs JAMES - One of the previous scenarios of course would have been had the Hydro been sold and the previous Government's budget was to be based on that -

Mr CHEEK - I am not sure we should get into that particular argument at this time.

Mrs JAMES - so that is one of the worst case scenarios.

Laughter.

Mr RAE - Could the record show that I did not answer that.

Laughter.

Mr CHEEK - I am not going to ask you a question about what you wanted to do.

Mr RAE - As already explained, that is a matter for others, not for us. We simply endeavour to run the business within the parameters provided.

CHAIRMAN - Thank you, Mr Rae and Mr Jefferies, for your cooperation today and for the other people who have assisted you. We look forward to receiving that information that we have called for today and you can confer with our secretary in relation to that. We will certainly analyse that and, if

there are any further questions, no doubt we will contact you again and I know we will get the same support and cooperation from you.

Mr RAE - Thank you very much.

THE WITNESSES WITHDREW.