



2010

Legislative Council

Government Businesses Scrutiny Committee 'A' 2010

Report with Minutes of Proceedings

Members of the Committee:

Hon Ruth Forrest MLC

Hon Vanessa Goodwin MLC

Hon Greg Hall MLC (Chair)

Hon Paul Harriss MLC

Hon Jim Wilkinson MLC

LEGISLATIVE COUNCIL
GOVERNMENT BUSINESSES SCRUTINY COMMITTEE "A"
MINUTES

Thursday, 2 December 2010

At 9.00 am in Committee Room No. 2, Parliament House, Hobart.

Present : Ms *Forrest*, Dr *Goodwin*, Mr *Hall* (Chair), Mr *Harriss* and Mr *Wilkinson*.

In Attendance: Mr Tom Wise (Secretary).

Confirmation of Minutes:

The Minutes of the meeting held on Wednesday, 1 December 2010 were confirmed as a true and accurate record.

AURORA ENERGY PTY LTD

The following witness appeared before the Committee:

Hon. Bryan Green, Minister for Energy and Resources

Mr John Hasker AM, Chairman

Dr Peter Davis, Chief Executive Officer

Mr Darren Smith, Chief Financial Officer

Mr Rick Inglis, General Manager, Strategy and Corporate Affairs

Mr Michael Brewster, Chief Operations Officer, Energy Business and CEO
AETV Power

Mr Andre Botha, General Manager, Network

Mr Mike Larkin, General Manager, Telecommunications

The Committee suspended at 10.45 am

The Committee resumed at 10.55 am

The Committee suspended at 12.02 pm

Additional Information Requested:

- Aurora Chairman's letter of December 2009 to the Treasurer outlining his Board's concerns about the company's financial situation – letter mentioned in recent Auditor-General's Report.
- Cost of Deloitte's report on the new billing system.
- Cost of initial advice when first setting up the new billing system.
- Information regarding the ability of the local Meander Valley network to cope with power demands of local irrigation pumps, especially through Railton and Prospect substations.
- Breakdown of Aurora Energy employees in terms of where they work; also the numbers and types of vehicles in the Aurora Energy fleet.

The Committee notes with concern and disappointment that this additional information has not yet been received, almost three weeks after it was requested and the Minister for Energy and Resources undertook to provide it.

Conclusions

The Committee concludes that:

- Aurora Energy Pty Ltd recorded a loss for the first time since it was established twelve years ago.
- The two major contributing factors relating to the loss were the State Government decision that Aurora Energy take over ownership and complete the construction of the Tamar Valley Power Station (TVPS) and the new billing system cost blowout.
- The importance of energy security, 'drought proofing' the State in terms of energy generation and the need for the power station to be completed and operational, were the principal reasons for the Government's decision for the purchase of the TVPS.
- The ACCC decision that Hydro Tasmania should not own the TVPS resulted in the ownership, debt and ongoing operational costs of this power station being transferred to the Aurora Energy. Ownership of the power station added \$260 million to the Aurora Energy debt for \$100 million of equity.
- The increased level of debt is sustainable for Aurora Energy on a whole-of-business level, but the funding provider (TasCorp) required a

'letter of comfort' from the Treasurer in relation the separate entity operating the power station (AETV).

- The role of energy generator imposed on Aurora was an entirely new area of activity for the company, one for which it was not well equipped or prepared at the time.
- In spite of nominal competition from Aurora Energy, Hydro Tasmania effectively remains the monopoly energy producer in the State, providing in excess of 90 per cent of its energy supply.
- Aurora Energy does not sell energy via Basslink, unlike Hydro Tasmania.
- Hydro Tasmania adopted an aggressive approach in its dealings with Aurora Energy after it assumed ownership of the power station in terms of power pricing.
- Satisfactory and acceptable energy pricing contractual arrangements between Hydro Tasmania and Aurora Energy, to avoid similar energy price volatility experienced by Aurora Energy in the last financial year, were only achieved through the threat of regulatory measures. These regulations provide for the intervention of the Treasurer if the differences between the two companies were unable to be adequately resolved. Agreement was reached without the need for this intervention.
- High energy costs, leading to financial difficulties for Aurora Energy resulted from its direct exposure to the spot energy market resulting in very high running costs for the power station that were far in excess of the hedging arrangements in place.
- Volatility in the spot energy market and aggressive competitive behaviour by Hydro Tasmania had an adverse impact on Aurora Energy which struggled to come to terms with the spot energy market prices during commissioning and early operation of the TVPS.
- Lack of experience in, and a reliance on external advice regarding the spot energy market led Aurora Energy to employ overly optimistic forecasts and inappropriate hedging arrangements in the initial period of its ownership and operation of the power station.
- The company also suffered unexpected plant failures as part of the commissioning of the TVPS. Such failures in turn caused financial problems because of difficulties in obtaining suitably priced spot market energy to replace the shortfall, especially when the duration of the failure and its cause were not immediately known.

- It is unlikely that Aurora Energy will see similar challenges repeated under the new contractual arrangements with Hydro Tasmania due to the more favourable three-year wholesale agreement minimising future exposure to volatility in the spot energy market.
- Aurora Energy accounts for only 39 per cent of the energy charges imposed on Tasmanians, with the remaining 61 per cent coming from costs associated with energy production (Hydro Tasmania) and transmission (Transend).
- Aurora Energy employees were subjected to unwarranted attacks in the Tasmanian media and unjustified abuse from members of the public as a result of increased energy charges.
- This activity has had a negative impact on staff morale.
- From 1 July 2012, Aurora Energy charges will be subject to the oversight and approval of the Australian Energy Regulator.
- Aurora Energy has agreed to give consideration to segment reporting in its accounts, as recommended by the Auditor-General.
- The new billing system being developed by Aurora Energy has been subject to an alarming increase in costs, from an initial estimate of \$15 million to a current estimate of \$60 million.
- Aurora Energy has now acknowledged, as it should, its failure to recognise the complexity of the task with the requirement for multiple interfaces across its 36 individual systems, resulting in the inadequate initial cost estimate.
- The company has also indicated that it received poor advice in relation to the new system and the anticipated cost from external advisers who have since been replaced.
- The newly-designed billing system and the costings involved have been independently reviewed by Deloitte, who reported that what Aurora Energy is spending is what is to be expected for a system of this complexity.
- The new billing system is expected to be operational at the end of the first quarter of 2011.
- There will be no new apprentices employed by Aurora Energy in 2011, with a key reason being the uncertainty about future work programs which will need the approval of Australian Energy Regulator to proceed after 2012.

- In February 2011, managements expects to commence negotiations on a new enterprise agreement for Aurora Energy employees to replace the existing agreement which expires in May 2011.
- Energy prices in Tasmania rose by 8.8 per cent on 1 December 2010, largely reflecting the costs of energy in the wholesale market. An eight per cent rise will take place on 1 July 2011 and a further eight per cent increase will occur on 1 July 2012.
- From July 2012 until 2017, any future increases will be subject to the approval of the Australian Energy Regulator.
- In addition to approximately \$30 million in State Government concessions, Aurora Energy provides further hardship assistance totalling \$270,000 to customers in difficult circumstances.
- This hardship assistance funding is provided to the Salvation Army who then distribute it on behalf of Aurora Energy to other community support groups.
- The electrical safety device 'Cable PI' is an innovative invention developed by Aurora Energy staff. It has been provided free to all Tasmanian households and has resulted in a positive effect on electrical safety in homes and cost savings to Aurora Energy.
- The 'Cable PI' manufactured under the subsidiary company EziKey Group Pty Ltd, has the potential to become a significant revenue stream to Aurora Energy if trials currently being conducted in other Australian States and New Zealand are successful.
- Aurora Energy has committed to rolling out 'smart meters' only if it will not contribute directly to price increases to customers.
- The rollout of the National Broadband Network (NBN) continues to be managed in Tasmania by Aurora Energy which has developed considerable expertise that may provide business opportunities for the company.
- The full implementation of 'smart meters' will only be possible with the successful rollout of the NBN.
- Meter readers employed by Aurora Energy continue to be hampered in their work by dogs on premises.
- To overcome problems with safe access to some meters, Aurora Energy is developing a program to train customers to read their own meters.

- The Aurora Energy Board believes that, although tough times are ahead, the stronger results to date in this financial year justifies their confidence regarding future results.

Recommendations:

- Aurora Energy include segment reporting in its financial reports for 2010-11 and subsequent years to allow greater transparency in its various operational units, including its subsidiary companies.
- The appropriateness of retaining the AETV by Aurora Energy into the future be considered.

RIVERS AND WATER SUPPLY COMMISSION

The following witness appeared before the Committee:

Hon. Bryan Green, Minister for Primary Industries and Water
Mr Scott Ashton-Jones, Chairperson, Tasmanian Irrigation Schemes Pty Ltd
Mr Chris Oldfield, Acting CEO, Tasmanian Irrigation Development Board
Mr Adrian Paine, CEO, Tasmanian Irrigation Schemes Pty Ltd
Mr John Lord, Chair, Tasmanian Irrigation Development Board
Mr Kim Evans, Chairman, Rivers and Water Supply Commission
Mr Ben Goodsir, CEO Rivers and Water Supply Commission

The Committee resumed at 1.16 pm
 The Committee suspended at 2.44 pm

Additional Information Requested:

- Details of staff allocated to Wealth From Water program.

Additional Information Provided:

The number of people dedicated to Phase 1 of the Wealth from Water Program (ie October 2010 to September 2011) is outlined below.

Number of FTEs paid for from program funds

Total No = 3.9 FTE's paid for from program funds.

Detail:

- 1 FTE Program Manager – DPIPWE, Agricultural Policy Group
- 1.9 FTE – Technical – DPIPWE, Land Conservation Branch
- 1 FTE – Co-ordination and Technical – Tasmanian Institute of Agricultural Research (TIAR)

Number of FTEs providing in-kind support contribution

Total No = 6.5 FTE's in-kind

Detail:

- 0.35 FTE – DPIPWE Agricultural Policy Group (management, industry development policy, and administration)
- 3.65 FTE – DPIPWE Land Conservation Branch (management, soils, Geographic Information Systems (GIS) and field technicians)

- 2 FTE – DEDTA Sectoral Development (management, project managers, client managers, investment, export and business response, and administration)
- 0.5 FTE – TIAR Scientific and extension input (academic and professional staff across agricultural production and resource management areas).

Conclusions:

- The Tasmanian Irrigation Development Board (TIDB) and Tasmanian Irrigation Schemes Pty Ltd (TIS) are subsidiaries of the Rivers and Water Supply Commission and have been delegated the functions previously carried out by the Commission.
- This structure was chosen so the TIDB could operate outside the normal public sector environment with more freedom within a more commercial environment.
- At the same time, the TIS was established to carry out the existing business functions of the Rivers and Water Supply Commission, which has become the Government Business Enterprise responsible for both subsidiaries.
- This governance model is currently under review.
- The major focus for the TIS in the reporting period was the Meander Valley pipeline extensions project, involving the construction of four pipelines.
- The last of the four Meander Valley pipelines to be built is due to be finally commissioned in the near future, although it has already been delivering water.
- TIS also continued the development of the Clarence Council's Coal River Valley re-use scheme.
- Total revenue for the TIS in 2009-10 was \$8.7 million, which included \$4.1 million in sales for Meander irrigation rights.
- Profits will be used to reduce the debt incurred by the Meander Valley pipeline extensions project.
- The Meander Dam debt is currently around \$15 million and it is expected to be discharged in five to ten years, depending on the final irrigation right sales.

- The TIDB is progressing 13 irrigation schemes, all at different stages of development.
- The TIDB irrigation developments are funded under the National water Funding Agreement, with \$140 million provided by the Commonwealth Government and \$80 million from the Tasmanian Government, with a further \$200 million from farmers or those who take up the water entitlements.
- Proposed irrigation schemes that require a public subsidy (i.e. government funding) component which is greater than the funding component from farmers, fail the economic viability test applied by TIDB and are not approved.
- The TIDB is confident that, with current costings and available funding, it can cover the costs of constructing all the irrigation schemes it has been asked by the State Government to build.
- Communities wishing to propose irrigation schemes for their region need to prepare a business case for consideration and assessment against the criteria established by the TIDB.
- The TIDB does not provide any lending facilities or other financial support for farmers wishing to purchase water entitlements, although the State Government is examining the possibility of providing some assistance.
- The TIDB is also working with financial institutions to achieve an outcome whereby commercial lenders will lend money secured against water entitlements alone.
- In addition, discussions are underway to develop a water title register system of the same high quality as the Torrens title system for land.
- The TIDB only designs and puts forward irrigation schemes that demonstrate a 95 per cent level of water reliability, significantly higher than the standard in other Australian States.
- CSIRO has assessed the hydrology of the districts where TIDB schemes are proceeding, factoring their climate change models, and has reported that all have at least 95 per cent water reliability for the next 30 years.
- Tasmania represents only one per cent of Australia's total land mass, but has around 13 per cent of the nation's water resources, providing a significant competitive advantage for primary producers.
- The State Government's *Wealth From Water* scheme has received initial funding of \$750,000 to undertake a pilot project in the Meander

Valley to assess what useful data can be gathered about the future wealth potential in the district.

- The core of the project is detailed mapping and modelling of the district, drawing on data from a whole range of different sources, including the Bureau of Meteorology, the Department of Primary Industries, Parks, Water and Environment, and Hydro Tasmania.
- A project team has been set up to manage this pilot project.
- The Tasmanian Government is considering promoting opportunities for farmers, with expertise in a range of areas, to relocate to the State from other parts of Australia.

Recommendations:

- That the proposed review of the current Rivers and Water Supply Commission governance model be undertaken as a matter of priority, with a view to restructuring the existing arrangements to reduce complexity and improve transparency.
- That the Tasmanian Government give urgent priority to its current consideration of measures to assist farmers facing difficulties with commercial lenders who are reluctant to provide finance for the purchase of water rights associated with irrigation schemes being developed in the State.

TASMANIAN RAILWAYS PTY LTD

The following witness appeared before the Committee:

Hon. Lara Giddings, Minister for Infrastructure

Mr Bob Annells, Executive Chairperson, Tasmanian Railways Pty Ltd

Mr Damien White, CEO, Tasmanian Railways Pty Ltd

Mr Steven Dietrich, Company Secretary Tasmanian Railways Pty Ltd

The Committee resumed at 3.03 pm

The Committee suspended at 5.00 pm

Conclusions:

- Tasmanian Railways has only existed as Government Business Enterprise for 12 months.
- The Government based its decision to take over ownership of the business on a number of reports and investigations, especially into what the impact would be if it were not operational in Tasmania.
- The company operates separate accounts for the above and below rail parts of its operation.
- Funding for the organisation is provided by the Tasmanian and Commonwealth Governments under a Memorandum of Understanding that was agreed two years ago.
- Total funding last financial year was \$16.3 million and this financial year it has risen to \$19.4 million, with the Commonwealth portion principally set aside for the below rail part of the business.
- On-going maintenance of the below rail infrastructure is expected to cost \$8 to \$10 million annually.
- The only effective income for the below rail asset is the agreed charge for access to the rail line, currently \$2.8 million.
- It is expected that the below rail business will always require an operating subsidy from the Government.
- The company expects to operate the overall business profitably within two years.
- It has been estimated that over the past year the company saved 24,000 truck movements on Tasmanian roads, or about 66 per day.

- Tasmanian Railways believes the Brighton Transport Hub will be important for the company and will further reduce the number of trucks on Tasmanian roads.
- The rail terminal at the Brighton Hub will also provide significant loading efficiencies and safety improvements.
- The company inherited a business with very old and poorly maintained equipment, poor rail infrastructure and an unfortunate history of derailments and unreliability of service.
- Tasmanian Railways has three different types of locomotives, most in poor condition and 11 different types of wagons.
- The company is looking to purchase new locomotives over the next two years at an estimated total cost of \$80 million.
- The company recognises the inherent financial risk in this process, given that many of the new major manufacturers, particularly those based in China, do not have much experience in demonstrating the long term reliability of their locomotives.
- To minimise this risk, the company also recognises the need for it to obtain the best possible external advice and has already engaged an experienced project manager to oversee the process.
- The wagon fleet will also be upgraded, new wagons for transporting cement and low floor wagons among the types identified for purchase.
- New maintenance equipment is already installed and in operation in the Tasmanian Railways workshop. Used maintenance equipment may be made available to heritage or tourism rail operators if appropriate.
- The first of the company's new purpose-built maintenance vehicles will be in operation in January 2011 and more will be rolled out over the following six months.
- The company has been re-engaging with its customers over the past year and is confident about its future prospects.
- The Company believes that nothing has emerged from discussions with Norske Skog that would suggest that their operations are anything but a long term proposition.
- The company does not currently have any rolling stock capable of carrying logs, but it is discussing with Forestry Tasmania the possibility of rebuilding that business.

- There is no reason, according to the company, that its track standard could not meet the requirements of slow-speed tourism or heritage rail operations.
- Tasmanian Railways is consulting with tourism rail ventures and will be holding a round-table meeting with all of them before the end of 2010.
- The Tasmanian Government has stated that the door is absolutely open to the possibility of tourism rail operators using the main Tasmanian Railways line.
- The company believes the main issue for tourism rail operators is gaining rail safety accreditation from the independent rail safety regulator.
- Models for dealing with the issue of public liability insurance for tourism and heritage rail operators are in place in other States and the Tasmanian Government has highlighted the possibility of adopting one of those for Tasmania.
- Neither the company nor the State Government have available the \$150,000 needed to replace the Don River railway main line points removed by Pacific National in 2006.
- 18 per cent of the track network is subject to speed restrictions and the aim is to reduce that to no more than 5 per cent.
- Less speed restrictions have the potential to improve turnaround times on the Hobart-Burnie run, to less than 24-hours.
- An engineering assessment of the rail network has examined the condition of every length of rail, every sleeper and every bridge so the company is now aware of the condition of the entire network.
- The company is examining options to purchase concrete sleepers, including the possibility of a Tasmania business establishing a suitable manufacturing plant.
- The State Government has agreed to deal with any environmental liability that is beyond the resources on Tasmanian Railways to meet.
- This environmental liability has not been quantified.
- The company plans to install a new computerised, GPS-based, train control system at an estimated cost of \$4 million, which has already been budgeted for.

- The company believes it will be able to solve the ventilation problems at the Rhyndaston tunnel and is seeking funding approval from the Commonwealth Government to implement that solution.
- The fuel supply agreement includes provisions to offset increases in fuel prices and protect the company from exposure to large price rises.
- Infrastructure and equipment at all level crossings has been upgraded with funding provided by the Commonwealth Government and all now meet the Australian standards.
- The five enterprise agreements covering Tasmanian Railways employees are currently being re-negotiated.
- The company is facing difficulties recruiting and retaining qualified train drivers, but has taken on two apprentices already and will employ another two in the near future.

Recommendations:

- That Tasmanian Railways continue to engage pro-actively and positively with tourist and heritage railway operators within the State, with a view to maximising the potential of these ventures as quickly as possible.

The Committee suspended at 5 pm
The Committee resumed at 5.05 pm

Other Business:

Next Meeting: The Committee **RESOLVED** to meet at 9 am in Hobart on Friday 17 December 2010.

Adjournment: The Committee adjourned at 5.35 pm

DATE: 17 December 2010

CONFIRMED



CHAIR

LEGISLATIVE COUNCIL
GOVERNMENT BUSINESSES SCRUTINY COMMITTEE "A"
MINUTES

Wednesday 1 December 2010

The Committee met at 9.00 am in Committee Room No. 1, Parliament House, Hobart.

Present : Mr Hall, Mr Harriss, Ms Forrest and Dr Goodwin.

In Attendance: Mr Tom Wise (Secretary).

Apology : Mr Wilkinson.

Confirmation of Minutes:

The Minutes of the meeting held on Tuesday, 30 November 2010 were confirmed as a true and accurate record.

Stakeholder Meetings :

At 9.05 am the Committee met informally with stakeholders.

The Committee suspended at 10.25 am
The Committee resumed at 11.00 am

The Committee continued to meet informally with stakeholders.

The Committee suspended at 1.05 pm
The Committee resumed at 2.30 pm

The Committee continued to meet informally with stakeholders.

At 4.05 pm the Committee adjourned until Thursday, 2 December 2010.

DATE: 2 December 2010

CONFIRMED



CHAIR

LEGISLATIVE COUNCIL
GOVERNMENT BUSINESSES SCRUTINY COMMITTEE “A”
MINUTES

Tuesday, 30 November 2010

The Committee met at 10.10 am in the Conference Room, Henty House, One Civic Square, Launceston.

Present : Mr *Hall*, Mr *Harriss*, Ms *Forrest* and Dr *Goodwin*.

In Attendance: Mr Tom Wise (Secretary).

Apology : Mr *Wilkinson*.

Order of the Council : The Order appointing the Committee dated 26 October 2010, having been circulated, was taken as read.

Business :

Resolved, That the following resolutions be agreed to -

- (a) Past annual reports of Government Businesses to be examined be provided to all members of the Committee (where available).
- (b) The transcript of the last hearing of each Government Business (where available) be provided to all members of the Committee, if required.
- (c) Copies of the relevant sections of the Auditor-General’s reports from 2008-2010 (where available) be provided to all Members of the Committee.
- (d) That the timetable for examination be as previously agreed, as follows:

Friday, 3 December 2010

9.00 am – 12 noon	Aurora Energy Pty Ltd
1.15 pm – 2.45 pm	Rivers and Water Supply Commission
3.00 pm – 5.00 pm	Tasmanian Railways Pty Ltd

- (e) That the Secretary has written to the Chairperson of each Government Business to be considered requesting their attendance.

- (f) As previously discussed and agreed, stakeholder meetings take place on Tuesday, 30 November in Launceston and Wednesday, 1 December in Hobart in accordance with the list of attendees circulated to Members.

Stakeholder Meetings :

At 10.30 am the Committee met informally with stakeholders.

The Committee suspended at 1.05 pm
The Committee resumed at 2.00 pm

The Committee met informally with stakeholders.

At 3.05 pm the Committee concluded its meeting with stakeholders.

Other Business :

Resolved, That –

- The Report of the Committee for 2010, in accordance with Standing Order 235, include transcripts of the public hearings to obviate the need for a summary of verbal evidence in the body of the Report.
- The Secretary deal with any media issues or inquiries as the first point of contact.

At 3.25 pm the Committee adjourned until 9.00 am on Wednesday, 1 December 2010 in Hobart.

DATE: 1 December 2010

CONFIRMED



CHAIR

LEGISLATIVE COUNCIL
GOVERNMENT BUSINESSES SCRUTINY COMMITTEE "A"
MINUTES

Friday 17 December 2010

The Committee met at 9.00 am in Committee Room No. 3, Parliament House, Hobart.

Present: Dr Goodwin
Mr Hall (phone)
Mr Harriss (phone)
Ms Forrest (phone)

In Attendance: Mr Tom Wise (Secretary) and Ms Mann

Apology: Mr Wilkinson.

Confirmation of Minutes: The Minutes of the meeting held on Wednesday 1st December 2010 were confirmed as a true and accurate record.

Correspondence: The Inwards Correspondence was received and endorsed.

Draft Report:

The Draft Report was considered and the Committee **RESOLVED** that it be accepted with amendments.

The Committee **RESOLVED** that the Report be presented to the President by Dr Goodwin on Tuesday 21st December 2010

Adjournment: At 9.46am the Committee adjourned *sine die*.

DATE: 21 December 2010



CHAIR