

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Thursday 4 December 2008

MEMBERS

Ms Forrest
Mr Hall (Chair)
Mr Harriss
Mr Martin
Mr Wilkinson

SUBSTITUTE MEMBER

Mr Wing

IN ATTENDANCE

Mr David Llewellyn, Minister for Energy and Resources

Ministerial Office

Nick Wright, Adviser

Aurora Energy Pty Ltd

Dr Peter Davis, Chief Executive Officer

Mr Scott Adams, General Manager, Retail

Mr John Devereaux, General Manager, Network

Mr Adrian Wild, Group Manager, Government Relations

Mr Martin Wallace, General Manager, Strategy and Corporate Affairs

Mr John Hasker, Chairman

Mr Thomas Gribble, Finance

The committee resumed at 2 p.m.

CHAIR (Mr Hall) - Good afternoon and welcome, Minister. As you know we have a time slot from two o'clock to five o'clock for Aurora this afternoon.

Mr LLEWELLYN - We are looking forward to it.

CHAIR - Minister, would you like to give a short overview? You have become very succinct, I am told, in recent times.

Mr LLEWELLYN - Yes. Yesterday I was absolutely succinct. I handed it straight over to the chairman but today I need to say one or two things.

CHAIR - Yes, that is fine.

Mr LLEWELLYN - Aurora's strong performance for 2007-08 in a challenging and a competitive environment represents an important contribution to the Tasmanian community. A safe and reliable electricity supply is a critical component in ensuring the State's continuing economic prosperity and Aurora's leadership in areas like telecommunications and gas generating is delivering important infrastructure initiatives for the State. This is a sound and well-managed business whose performance reflects credit on the 1 200 employees that work for Aurora. Earnings before interest and tax of \$74 million, just below last year's record, is an impressive result in the face of increased competition.

Capital expenditure of \$134 million in 2007-08 represents a massive input and investment in network reliability and in ensuring Aurora has the customer systems to operate in a competitive market. Direct returns to Government were \$29 million comprising dividend and tax equivalents, payroll tax and guarantee fees. The contribution to the community is much wider including a wages bill of almost \$80 million and more than \$93 million in contracts let to suppliers and service providers.

The Government and Aurora recognise that it is not going to get any easier to maintain this strong performance in challenging times. Challenges include delivering a massive continuing program of distribution of capital works, completion and connection of the new Tamar Valley Power Station, delivering new-generation optical fibre communications across Bass Strait and around Tasmania and responding to the challenges of climate change. Aurora has a very clear purpose to see the Tasmanian community prosper from its efforts and has confidence that the strategy, structure, resources and commitment are in place to deliver.

It is with great pride and satisfaction that we present to your committee here today and all credit goes to the excellent leadership that we have within Aurora, to John as Chairman and Peter as Managing Director, and the other board members, and all of the executives and employees within Aurora.

CHAIR - Thank you, Minister, for that overview. Aurora is inexorably linked to Hydro and Hydro has some significant challenges at the moment, of course, with the lake-level storages and everything else. From that flows my first question. Aurora really is very dependent on that generator. Does Aurora have a strategic plan to cope with the very real prospect that Tasmania's

generating capacity, even supplemented by new sources of power, will be unable to meet requirements perhaps within five years?

Mr LLEWELLYN - In regard to that I have a couple of words to say before I get some comments from either the chairman or the CEO. Yes, it has been a challenging time over the last year or so and it will be, into next year. Aurora have a challenge with the Tamar Valley power station which will, in fact, inject an additional around 400 megawatts into the grid. It will be owned and operated by Aurora, together with standby equipment, thermal generators that are currently there at Bell Bay, which will add megawatts to the system if needed.

As well as that, from an energy perspective, I am very optimistic that as soon as the renewable energy target arrangements are finalised at a Federal level we will be able to get on with installing more wind generation at Musselroe and possibly other centres around the State, and that there will be a number of opportunities for private investors to invest in wind generation in the State as well. We have high probabilities of very successful geothermal operations starting in the not-too-distance future too. In fact, probably those prospects are better than anywhere else in Australia.

Mr WILKINSON - This is geothermal?

Mr LLEWELLYN - Yes.

Mr WILKINSON - In the Hydro report there was no mention of that at all, 157 pages of it and no mention of it, which surprised me.

Mr LLEWELLYN - The Hydro report?

Mr WILKINSON - Yes.

Mr LLEWELLYN - It is being conducted at the moment by KUTh Energy and other players but certainly on the surface it seems that the prospects here in Tasmania around Conara, in that region and further north, are more highly prospective than they are in the Cooper Basin, for instance, in South Australia where, to date, there has been a lot of recognition of the possibilities there.

I think, in the medium to longer term, we can see quite high levels of renewable energy being able to be generated in Tasmania, such that - and I have mentioned this at both the Hydro hearing and at the Transend hearing - we will be looking to transmit that renewable energy into the national market. The current situation with Basslink will not give us enough opportunity to export the renewable energy that we have and we may well be looking at a new Basslink cable in order to do that.

Far from us running out of energy, yes, we have challenges in the next year but in the longer term things are looking remarkably optimistic.

CHAIR - I acknowledge what you say but I suppose I could put the case that the wind farm - I am not sure when the Federal approvals might come on board -

Mr LLEWELLYN - Early next year, they tell us.

CHAIR - Early next year, but their construction time and the time that that comes on line is some years away?

Mr LLEWELLYN - No, I think we can adequately manage our way through. Currently our storage levels from a Hydro point of view are better than they were this time last year.

CHAIR - By how much? Just marginally?

Mr LLEWELLYN - Just marginally, but we managed through last year quite adequately. We obviously have a storage-building program that we would want to try to implement so that we can build those storages up but, on a worst case scenario, I think we can certainly get through the year. As well as our 200-odd megawatts of thermal generation possibilities from our old thermal units at Bell Bay, 400 megawatts are there with standby and combined-cycle turbine plant coming online in the middle of next year. There is, therefore, an extra 600 megawatts, together with imported energy from Basslink, which almost would accommodate us, alone.

CHAIR - Yes, I suppose one of the reasons we have been able to build up some of our lake storages in drought years is the inflow of that energy.

Mr LLEWELLYN - But we do not want to continue that, we want to be in a position where we are exporting every electron.

CHAIR - The other side of it is that the geothermal technology is fairly cutting-edge stuff, it is fairly new stuff, and I suppose it depends upon what economic price you can put something in at and actually deliver power. It may well be too expensive, might it not?

Mr LLEWELLYN - No, I think the renewable energy target arrangement will augment that to the extent that it is comparable with other renewable energy sources. In fact, it may even be, in many respects, a better proposition than wind once the carbon credit arrangements are added to the value of the electricity that is generated there. Of course, it is a base load too, which is very important.

CHAIR - So you are very confident that over the next five years we will not run out of any generating -

Mr LLEWELLYN - Yes, I am confident.

CHAIR - Aurora will be well placed to get all the power it wants?

Mr LLEWELLYN - We are certainly taking every contingency into account and making sure that we can minimise any risk. We have had an intergovernmental committee working, giving me advice on a regular basis as to how things are progressing, as you would expect, and we have a number of contingencies - a number of things that we can do. We are looking at the augmentation of importing of electricity over Basslink, for instance, from 480 megawatts to some 600 megawatts, if it is possible.

There are contingencies around Lake Pedder. There are other issues. Hydro now are looking at an extra 1 000 gigawatts of energy that they can obtain within their existing systems and smaller mini-hydro schemes that they may wish to build. They have progressed on about half of

that to date so, from a government point of view, we have a planning vision for the future that I think is very positive. Indeed, we need to be, at this stage in our international -

Mr WILKINSON - Advancing years - I thought you were going to say 'advancing years'.

Mr LLEWELLYN - I note that it is your birthday, Mr Wilkinson. That is right, cake for afternoon tea.

[2.15 p.m.]

Mr WILKINSON - The advancing years have seen Aurora diversify, haven't they? It is a dominant electricity retailer but it started to branch out into other fields, natural gas, dabbling into the telecommunications market -

Mr LLEWELLYN - Not dabbling.

Mr WILKINSON - I will call it dabbling. Being an energy producer through the acquisition of Tamar Valley Power Station et cetera, why is there the need to diversify as opposed to remaining what the core business is and that is being the dominant electricity retailer?

Mr HASKER - Perhaps I could seek leave for a few overriding comments and refer to the annual report. Our annual report, as best it can, does set the scene for the future. Our annual report was tabled in Parliament three weeks ago but it does refer to a year which ends on 30 June. We are looking at a bit of a history book today that is five months old. As a board, we signed off our annual accounts in September and we refer to some of the events that have taken place since that time.

Looking at the key issues in the report, I think there is a discussion about the increased competition that is taking place not only in this market but in the national market. I note in this morning's paper that there is talk perhaps of an economic slowdown to move south and it is certainly happening in other parts of the world. There is mention here about our presence in the fibre business and there have been some important announcements since the end of June that I will ask Dr Davis to talk about. We go into a lot of detail about climate change and what we are doing about that. I refer in my annual report, and would like to do so now whilst I am on the record, to thanking our minister for the guidance, leadership and support and to Mr Wright. I say that there and I want to repeat more publicly, I am grateful for that. The final thing is the photo of me, Chair, that was taken when I was at school so I look pretty good.

Laughter.

Mr HASKER - There is a photo of our Cambridge site which since the end of June has been honoured with some very distinctive national awards from the Royal Australian Institute of Architects. I know that the leaders of the three parties have been out and had a look at the site and I extend an invitation to see what we have done not only with a good place to work but a very environmentally-sensitive solution.

CHAIR - I think that you still have the same tie, Mr Hasker.

Mr HASKER - I am the only person who is prepared to wear the Melbourne Football Club tie. Thank you for that, Chair, and I will ask Dr Davis to take you through those strategic questions.

Dr DAVIS - I think that one of the challenges that we face as a business in Tasmania is that we compete in a national market against much larger players. Therefore we need to find ways to make our business competitive to achieve economies of scope and scale. The expansion of activities that you have seen Aurora engaged in over the last few years is very much in response to that. We now employ 1 200 Tasmanians, so we are a large business by Tasmanian standards and because we are a reasonable sized business with quite a lot of diversity, we are able to attract very good people to come and work for us because of the interest and variety. It means that things like providing financial services, human resources or IT - computers and so on - can be spread across the breadth of businesses that we are involved in and therefore achieve a lower cost to serve, which ultimately benefits the Tasmanian people. We always come back to our fundamental purpose and this is something that Aurora did not just invent. We actually asked our people, what is it that makes you want to work for Aurora, why do you want to come and work in a poles-and-wires retail company in Tasmania?

Mr WILKINSON - It is not just that now, is it?

Dr DAVIS - No, this is the issue. The fundamental purpose that people see as to why Aurora exists is to see the Tasmanian community prosper from our efforts. All the things that we become involved with are very aligned to that purpose and they enable us to have a greater economy of scale and therefore deliver more cost-effective electricity services to Tasmanians. For instance, in the issue of gas, the gas pipes are in Tasmania and we already have sales people, call centres and computer systems so it is only a marginal incremental cost for us to be able to offer gas retail to the Tasmanian public. That is a logical fit. We are an energy company so that fits nicely.

In the case of the Tamar Valley power station, we are very pleased to take on the challenge of constructing that station. As the minister said, the issues of drought are important. Again, it provides upstream risk management for our retail business and the two work very nicely together. It is very consistent with our strategy.

Mr WILKINSON - There were arguments that it was going to be sold within two or three years. That is the word in the media, is it not?

Dr DAVIS - Our focus at the moment is very much on constructing it, getting it working and trying to make it a viable and successful business that will contribute to the Tasmanian market. It sits in our strategy statement as positioning ourselves in the competitive market, so we welcome that.

I guess the other aspect of your question, Mr Wilkinson, is the issue of telecommunications. Aurora has been involved in telecommunications for many years because we have optical fibre servicing our various assets so that we can communicate with them. It is another network and it is an area where Tasmania has been under-served and it serves our purpose to see the Tasmanian community prosper. We think that being involved in the rollout of optical fibre builds on our core strengths and enables us to offer cheaper and faster telecommunication services to Tasmanian customers. All of those pieces fit together and support each other. The shared services part, which is our central head office, is able to provide people who cover across all of those activities.

Mr WILKINSON - So you do not think that by this diversification there is going to be the ability to take your eye off the ball - that is, be the major retailer of electricity?

Dr DAVIS - Not at all. In terms of focusing on the ball, the thing that we are focused on is delivering the largest-ever capital program of new works and construction in Tasmania in the distribution area. At the last regulatory price reset, the Regulator recognised that with the economic growth in Tasmania we needed to upgrade the ageing infrastructure and he approved a program of \$588 million in capital investment and some \$300 million in operating investment. We have a large team of engineers, technical people, line workers and so on focused on that. The other parts of the business do not take our eye off that ball at all because that is very much the essential core business, getting that ready for the Tasmanian people.

CHAIR - Just as an adjunct to Jim's question in regard to the Tamar Valley power station, are you confident that you will be able to bring that in on time and on budget, given that we have had exchange rates which have probably put up the cost of some of the raw materials - steels and those sorts of things - coming into the country? Do you think you are on track for that?

Dr DAVIS - Mr Hasker is the chairman of AETV, which is the power company that is looking after the power station, and he may wish to add to this. As of today we are tracking very well. The project is on track in terms of cost schedule. I think the issue of getting it delivered on time is always a challenge because it is not a single machine, it is a series of machines that add up to make the power station and each of those has to be delivered by manufacturers and installed. We are working diligently with a very strong project management team to bring all those machines on board so that it will be ready to run next year.

CHAIR - And you are confident about the cost? There will not be any cost overruns on it?

Dr DAVIS - I could not guarantee there would not be any cost overruns, one can never do that. At the moment we are tracking well. I think the contracts have been put in place for the major pieces of equipment that are already on site. Good progress is being made. It is a very major investment for Tasmania and very consistent with Aurora's purpose. I was on site a couple of weeks ago when we had a board meeting. I think we had 300 contractors working on site, so there are a lot of people being employed in the construction of that station. There are a couple of hundred million dollars' worth of investment going in there to create that new asset for Tasmania.

Mr HASKER - Let me answer the Chair's precise question about the massive fall in the Australian dollar throughout 2008. I am fully confident that the dollar has been hedged such that the money we are paying in Australian dollars will be the money we pay. That could be a huge issue.

CHAIR - Fairly confident, yes.

Mr HASKER - There may well be some material still needed, and so on, but in essence the hedging, particularly of the Mitsubishi gear from Japan, will mean that it is on our shores, that the amount -

CHAIR - Okay.

Mr LLEWELLYN - Most of the machines and most of the equipment is already on site, as I understand. Obviously there are other ancillary bits and pieces, but the major items are there.

CHAIR - I understand. I just raised the question because it can have some pretty big impacts.

Mr HASKER - It could have been a huge issue, Chair, but that has been covered.

CHAIR - Okay.

Mr WILKINSON - Getting back to this diversification, if I can. Does Aurora have the sufficient staffing capacity to be able to effectively manage the diverse range of activities it is now branching into? If it does not, what is going to happen with that?

Dr DAVIS - I think the answer to the question is, yes, we do otherwise we would not be doing it. One of the things that Aurora did anticipate some time ago was the nationwide shortage of skilled electrical workers, and whilst some other utilities around the country elected to bring in workers from overseas, we elected to invest in Tasmanian young people, but not always young, in the form of a very large apprenticeship program. As of today, we have 65 line worker apprentices in the network services division; we have about 30 or 35 trainees in our retail division. So we are continuing to bring new people through so that we do in fact have the resources.

I guess at the senior level we have found there are a lot of people who want to come and work for Aurora, and they want to come and work and live in Tasmania. So we do in fact find we get people coming from interstate because they are attracted by Tasmania, by the lifestyle, by the challenges of the business. So we very much used an incremental approach in taking on these strategies, and I am very confident that we have the resources to deliver them.

Mr WILKINSON - It is also expanding, as you know, by offering its product in the mainland markets. Can you give us, please, a rundown of the revenue on a State-by-State basis for the sale of products interstate?

Dr DAVIS - That is a very interesting question because one of the things about the interstate market is that it is highly competitive, and I am sure the question you are asking is one that our competitors would very much like to see. Of course most of our competitors are privately owned companies with public shareholdings on the stock exchange, so we might be able to give you that information in camera. I can indicate that it is in the hundreds of millions, so we have in fact been quite successful in winning customers interstate, and that portfolio extends through all of the mainland States with the exception of Western Australia.

New South Wales has been a happy hunting ground for us, but we also have a number of customers in Victoria and Queensland and the ACT. In South Australia we have not only industrial customers, but of course we have our pay-as-you-go customers. In Tasmania, we have been very successful in rolling out our pay-as-you-go meters with some 50 000 of our Tasmanian customers taking advantage of being able to manage their energy consumption. We are now successfully rolling that out in South Australia as well.

Mr WILKINSON - So you can get that to us and it is in camera. Thank you. Can I also ask you, then, what is the strategy for commercialising the optic fibre network, estimated capital cost as well in relation to that, and how will the implementation of it be funded?

Dr DAVIS - The commercialisation of the optical fibre network is already well advanced. The good thing is that a lot of the expensive equipment is actually not being paid for by Aurora. We have entered into an agreement with Basslink, or CitySpring, the owners of Basslink, and they are configuring the link to ensure that it operates successfully across Bass Strait. So they are

actually funding the major capital involved in that. The capital expenditure that Aurora needs to make is comparatively modest, and is of the order of a few million dollars, but again I can give you those numbers if I could take that question on notice.

[2.30 p.m.]

Mr WILKINSON - Can I ask also in relation to this diversification -

Mr LLEWELLYN - Mr Chair, in keeping with the decorum of the committee the member should be asking questions of either myself or the chairman who can defer. I am not arguing about it but as long as we realise that is the way that it should be.

Mr WILKINSON - We are into diversification in this committee.

CHAIR - Yes, that is right.

Mr WILKINSON - The next question -

CHAIR - Through the minister.

Mr LLEWELLYN - It can be through the Chair as well.

Mr WILKINSON - What has been the performance of Aurora Gas Pty Ltd over the last five years?

Mr LLEWELLYN - I will ask Mr Hasker to answer that.

Mr HASKER - We compete in this gas retail market with a publicly-listed enterprise. It is a very competitive market and we are fighting tooth and nail for each customer. I think we would have to provide you with that at a later date.

Mr WILKINSON - I hear what you say, it is competitive. Obviously it is tough out there because of the competition. It gets back to this question that I was asking at the start, why be involved?

Mr HASKER - I will let Dr Davis tell you quantitatively that we are doing it very well and give you an explanation of the other matter.

Dr DAVIS - I gave an answer in terms of why Aurora would be involved in these things from an Aurora perspective because it reduces our cost to serve, enables us to leverage off our core systems and our skills to offer new products, so from a business perspective it makes a lot of sense. From the customer perspective it also makes a lot of sense because customers are looking for choice and Aurora is competing actively in the retail natural gas market. We find customers expect us to be able to offer gas as well as electricity. They want to be a customer of Aurora with electricity and gas and they do not necessarily want to have to have two suppliers, although they may choose to. I think in terms of responding to customer demands it is very appropriate for us to be offering retail gas. Gas is a relatively more straightforward commodity to sell than electricity. It is relatively simple to meter and so on and so we find gas is a relatively easy thing to extend into on the retail side.

Mr HASKER - Our major competitors, AGL, True Energy and Origin, are dual retailers and they are very active in trying to tie up their customers to get their combined business.

Mr LLEWELLYN - I think you would see that in most other businesses in most other States as well. Fundamentally, from Aurora's perspective, we should not forget that Aurora's business is, as well as retailing, mostly about distributing electricity to customers, so it is a distribution company.

Mr HASKER - We are an energy company.

Mr LLEWELLYN - Yes, an energy company totally.

Mr WILKINSON - On that diversification issue, obviously because of the competition people and businesses compete to get bigger and in the end take over others and buy others out. The final question I have is, are there any plans in relation to the sale of any of the entities that you have?

Mr LLEWELLYN - I think I had better answer that -

Mr WILKINSON - That is why I was looking at you.

Laughter.

Mr LLEWELLYN - and say no. Obviously, in regards to the issue of the Tamar Valley power station that you alluded to earlier on, there have been some public statements made. We acquired that power station as a result of the downturn in the economy and the difficulty that Babcock & Brown were facing. We wanted to make sure that that power station came on line in a timely way. We were concerned that that may not occur, particularly with problems that were emerging with Babcock & Brown and of course they, as a result of those problems, were looking at liquidating a number of their assets. So it was an opportune time to step in.

The statement was made that at the appropriate time in the future we would be looking again to sell that particular facility, but there is no time line on that arrangement and it would be silly to put a time line on it, frankly, because if one is going to get the best return for an asset it is better to sell it at the appropriate time. With that caveat, there are no thoughts or intentions of selling any of their other assets.

Mr MARTIN - No discussion at board or management level?

Mr LLEWELLYN - The shareholders are at one on this particular matter and I am sure the board takes very careful note of the shareholders' views.

Mr HASKER - Minister, I would be happy to say, as Chairman of the Board, that there have been no discussions. We have received no directions and the matter has not been raised at our board meetings.

Dr DAVIS - Mr Chairman, I was thinking about the answers to our previous questions and I think one of the ways of addressing this whole issue of the diversity and spread is on page 3 of our annual report. Aurora is very focused on outlining what our strategies are and how those

diversity aspects are brought together. We are quite clear on what our core business is and we state that it is electricity distribution and retail in Tasmania. That is the core business.

Our network service is working on the distribution system and for Transend in relation to contracts on transmission assets. We start with that as the core. We have a strategy statement that talks about us wanting to be the company that contributes the most to Tasmania's economic value in improved standard of living and then we outline how we will do that, and we do it by delivering value using the synergies of our mutually dependent businesses. We are very explicit about the fact that we only do things that work in a complementary fashion. We talk about how we build on our unique physical and retail channels, which we are doing, and how we provide complementary customer solutions in energy, telecommunications and utility infrastructure services.

In answer to the Mr Wilkinson's question, we are very up-front about the business and we include on page 3 of the annual report our key strategic objectives. Again, the first of those is very clearly focused on the core business and it says, 'Realise the full potential of the core business in delivering appropriate outcomes to its shareholders, customer and community.' We then go into what we are doing in the network, which is investing in our infrastructure to support economic growth and emerging customer requirements. For the retail business we talk about positioning the business in a competitive market.

We have a big focus on risk management and then, finally, we pursue complementary business opportunities but only where they leverage off their core assets and competencies. The reason we have created it is published in our annual report. Within the company we talk about our one-pager and because the company does have this diversity, it is not just a pure distributor or a pure retailer, we found it important to articulate that strategy on one page so that key stakeholders, our customers and, indeed, our staff, can understand the answer to the very question that you put.

CHAIR - Minister, I think Mr Wilkinson's question on diversification has been answered.

Mr LLEWELLYN - He is not going to ask any more questions on that then?

CHAIR - Whilst it is fine to move interstate and obviously pick up business, on the other hand, I think in about 2010 full retail contestability will be on board. Surely that will be of concern to Aurora? You may have a major powerco of some description on the mainland that looks at the Tasmanian market and obviously you will then have competition to face. What plan do you have in place for that? Are you concerned about that?

Mr LLEWELLYN - We do have a unique situation here in Tasmania of course, in the make-up of particularly our retail customers. The issue of full retail contestability needs to go through rigorous public benefits tests before that becomes a reality. There is no certainty that will become a reality. We are moving through the various tranches of energy at the moment. The final one is the one to do with retail contestability and that has to survive public-benefit testing arrangements and currently we have had work done on that.

CHAIR - Who does that?

Mr LLEWELLYN - Treasury are looking at those issues. I can give you an outline of what has happened to date. It started on 1 July 2006, being progressively phased in over a four-year

period. Contestability means the customer will be able to choose their electricity provider - that is, retailer. The phase-in commenced with the largest consumers first and will progressively encompass all industry and commercial electricity consumers. Before 2010 the State Government committed to undertake a public benefit test to decide whether competition should also encompass residential users of electricity.

The Government issued terms of reference to the Tasmanian Energy Regulator to undertake this public benefit test. The draft report detailing the Regulator's findings was released for consultation in May 2008 and a final report has been submitted to government for consideration.

The following table that we have here shows tranche 1, 1 July 2006, 20 gigawatt hour per year customers, of which there are 10 - mineral processors and so on; tranche 2, 1 July 2007, 4 gigawatt hour per year customers, of which there are 54 - food processing plant and multistorey office complex et cetera; tranche 3, 1 July this year, 0.75 gigawatt hours per year, of which there are 295 and are, by and large, supermarkets, engineering workshops or commercial complexes; and tranche 4, next year, 1 July 2009, 0.15 gigawatt hours per year of which there are 1 030, we believe - fast food restaurants, service stations, large offices. And then, full contestability due on 1 July 2010, provided it survives a public benefit test by Government for customers under 0.15 gigawatt hours per year and there are 230 000 domestic customers, many of which are pensioner people and so on. I just wanted to underline that there is a very thorough public benefit test arrangement associated with that and that is consistent with requirements from a national market point of view.

CHAIR - Are there any other retailers operating in the State at the moment?

Mr LLEWELLYN - I defer to Dr Davis about that. There are but -

Dr DAVIS - We only get to hear about them when we lose customers to them and I can assure the committee that competition is well and truly alive in Tasmania. We read the regulator's reports to find out how many retailers there are. We did notice that one New South Wales-based retailer recently handed its licence back in and went home. We think that is probably a good thing because we must have defended our patch fairly well. There are five or six interstate retailers actively competing with Aurora for those customers that are already contestable.

Given it is the large end of town, the majority of our revenue, a large chunk of it, is already up for grabs, if you like, from these other retailers. Competition is here and it has been here for a couple of years. As we have said in the annual report, if you look at Aurora's financial results, we achieved an earnings before interest and tax of \$74.3 million, which was effectively our budget target. Despite losing some customers we have managed to achieve the overall result.

I think that does show that Aurora is reasonably well prepared for competition but clearly if the Government decides to go to the level of full retail contestability for mums and dads, that will put the pressure on us. We do feel confident, with the brand name that Aurora has in this community and the systems and the people that we have, that we are well placed to respond to that competition.

CHAIR - So you can sell power at the moment to the mums and dads in Victoria and New South Wales, for example. Those States have conducted their own public benefits test?

Dr DAVIS - That is correct.

CHAIR - Whereas we are behind in that respect. Are we protecting our interests pretty well?

Dr DAVIS - There are a number of issues in the Tasmanian market because it is a small market. I think that it is fair to say that a number of the larger jurisdictions made a number of mistakes as they went through the introduction of competition. A number of utilities spent a large amount of money on IT systems and billing systems to be ready for competition, and because we are coming along behind them we are able to look at the things that they did wrong and make sure that we do not do those things wrong.

I think just to clarify too, our focus interstate is not in the mums and dads residential sector. Our focus interstate tends to be on the larger business customers, with the exception of the pre-payment customers that I referred to, the pay-as-you-go customers in South Australia.

[2.45 p.m.]

CHAIR - With the whole NEM scenario, I presume the Federal Government has some jurisdiction over what States do and ensuring that each conducts the public benefits test within a certain time frame. Is that so or how does it work?

Mr LLEWELLYN - The schedule was as I indicated, on 1 July 2010 if it was to progress. There are a number of issues and if it is clearly shown that it is not to the advantage of our customers - the 230 000 customers - to go to full retail contestability, and that would have to be measured against any value or a reduction in power or whatever that they might achieve if it was a competitive market against the retailer that Aurora is already selling power to, then there is no obligation. But we need to do that thorough public benefits test.

Mr MARTIN - When will that decision be made?

Mr LLEWELLYN - At the moment, the Regulator put down a draft report and now there is a final report from the Regulator that is being assessed and analysed. Treasury will be advising the Government in the future of those issues and then the Government will consider the matter.

CHAIR - We might return to that shortly, and ask some more questions about that particular issue. Minister, could you give us a snapshot of Aurora in regard to financials, budgets forecast et cetera? A snapshot says that profit after taxes is down to \$27.2 million from \$32.5 million in the previous year, as seen on page 80 of the annual report; return on investment was 9.7 per cent which was down from 12.3 per cent in the previous year, whilst revenue was up to \$903 million compared with \$814 million in the previous year. Can you provide an overview as to why there is a decline in profit, decline in return on investment but at the same time there has been an increase in revenue?

Mr LLEWELLYN - There are always a lot of reasons for those matters and one of the figures that always seems to feature is different accounting standards that have to be met and the like that change the level of assets and liabilities and so on, so you get this bit of volatility. I think, by and large, Aurora met its objectives for the last year, substantially - a tiny bit under but, again, Dr Davis or Mr Hasker can respond more adequately to that.

Mr HASKER - Thanks, Minister. Dr Davis has already highlighted that we lost major customers and that pretty much goes back to the same committee meeting a year ago, I think; that

announcement was in the public arena at about that time. We have lost customers. We have probably done a little better on the mainland which has taken us in that direction.

The accounting standards do jump our results around because you are now required to mark your book of hedging contracts to market and that can produce some dramatic turns, plus the provisions that you take in terms of Retirement Benefits Fund and how you reassess that. It might be a good time to ask Thomas Gribble to the table.

Dr DAVIS - I think the critical thing is that the earnings before interest and tax for Aurora are \$74.3 million. We are aiming a bit before last year's result, which was \$75.8 million. So at the top level, when you look at the fundamental earnings from business, it was a very steady result and, in fact, last year's was a record result. We are very pleased that we are able to keep the numbers at that level.

Of course, the growth in electricity sales was offset, to some degree, as the chairman mentioned, by the impact of increased competition. It is not only loss of customers that has an impact on your returns in that regard, but it is the fact that we have to sharpen our pencil and reduce our own margins in response to competition. The \$74.3 million positive earnings before interest and tax, I think, is a result that we can be very proud of.

As you work down through the detail - I will probably let Thomas handle ratios and so on - but the profit after tax of \$27.1 million was down a bit from the previous year, but I guess the major reason for that was that we had some higher interest costs. Everyone is very aware that interest costs have dropped in the last couple of months but in the year on which we were reporting they were quite high. As well as that, we had additional borrowings and they were what in our management team we refer to as 'good debt' because it is borrowings on which we earn a regulated return in accordance with an amount that the Regulator allows us. The reason that our borrowings went up was that we invested \$134 million in capital last year, which was a \$10 million increase over the previous year. That was largely investing in reliability of the network assets, responding to customer demand and the various IT systems that we need to operate in this competitive environment. Perhaps Thomas could comment on the ratios and where we sit at the moment. He can give some numbers that the committee might be interested in.

Mr GRIBBLE - I think if you look at our ratios for last year you will see that our return on equity and assets did fall marginally last year. We did have lower profits but at the same time our asset base and our equity base increased so, as the mathematical calculation goes, we suffered from a slight drop across that period. Going into the current year we would expect that to reverse to some extent. The total debt to total capital is pretty steady. At the end of 2007-08 it is at 58 per cent. The pre-tax interest cover is at 2.2 times. When you compare those ratios with the industry average information that we have available we are pretty much in line with an industry average. If you look at our EBIT interest cover, our ratio is 2.2 times versus an industry average, according to the latest information we have, of 2.1 times. Our debt to total capital, again, is pretty much standard with other GBEs and with the overall industry average at about 58 per cent.

CHAIR - Dr Davis talked about borrowings and I notice they have gone up from \$323 million to \$555 million. That is a fairly significant increase. Is that all for capital expenditure?

Mr GRIBBLE - It has gone from \$505 million to \$555 million over the year. It was a \$50 million increase.

CHAIR - Sorry, my mistake. With regard to borrowings, do you usually try to lock in at a fixed rate or in variable conditions - with such a volatile market at the moment I suppose it is something you have to consider fairly carefully, do you not?

Dr DAVIS - I will give you the high-level answer and then Thomas can expand a bit on it. Clearly we need to be very prudent in our management of borrowings. Aurora has a very focused Treasury management committee that actively manages Aurora's debt. We receive external advice from specialists in the market advising this committee. I guess the strategic objective we have in managing our debt is that we are not exposed to the daily fluctuations so the vast majority of the debt is hedged, which effectively means it is locked in, and we make prudent decisions about when to do that. The strategic objective we have in managing our debt portfolio is to make sure that whatever we have to pay on our borrowings is less than or equal to the amount that the Regulator has set us - that is what we call the 'weighted average cost of debt'. If we get it wrong, we will be seeing our profits decline because we are not achieving what the Regulator has allowed. The weighted average cost of debt for the pricing determination from last time was 6.3 per cent and for the pricing determination going forward it is 7.51 per cent. Ironically, if we had had all the debt unhedged and had been able to take advantage of this recent fall in interest rates, we would be doing very well but we are not here to play the interest rate market.

Mr GRIBBLE - In terms of the debt, I am not sure there is an awful lot to add, except that the strategy we use is that debt is taken as required, drawn down as required, whether we hedge the debt based on the strategy that we use and develop in line with our advisers. We will hold the debt in cash or hedge it based on the most advantageous situation we can find at the time. We are certainly conservative, we do not expose ourselves to risks. You can see that in terms of the maintenance of our weighted average cost of borrowings at the end of 2008. It was below the weighted average cost, as provided by the Regulator, of 7.51 per cent for the current determination.

CHAIR - Minister, in the big picture, where are we going to be financially this time next year for Aurora?

Mr LLEWELLYN - They are forecasting - I am not sure exactly the forecast, Dr Davis will be able to tell you that - a continuation of the way that we have been currently moving. I think there may well be a slight adjustment, but it is fairly steady as she goes.

Mr HASKER - Chair, looking six or seven months ahead, one of the key factors is the weather; I guess it has been unseasonably warm and dry. What we have in the months ahead will give us an ultimate outcome. But I think I will back the minister up saying that we are still looking at a robust result, and Dr Davis will give you -

CHAIR - You would obviously have some forecasts, major forecasts, so -

Mr HASKER - Oh, yes. The board are constantly provided with a budget, and that is readjusted every couple of months to give us an absolutely clear picture of what the forecast for the end of the year will be.

CHAIR - Do you have that?

Mr HASKER - Not the numbers with me.

Dr DAVIS - We are just at a high-level number. We are actually forecasting an improved return from Aurora next year.

Mr MARTIN - The year we are in?

Dr DAVIS - Yes, the year we are in, as is in the year after the year that we are reporting on which is the current financial year. We are tracking on budget for this year. The EBIT number for the year just gone, as I mentioned, was of the order of \$60 million and we are looking to probably improve that by a further \$10 million going forward. As for the various initiatives that we have put in place such as we described to the committee earlier - things like telecommunications activity and further expansion of our retail business, and a range of other opportunities that we continue to look at - we will in fact see those returns continue to grow as Aurora moves forward.

We have a robust strategy. For instance, as competitors come in and attack our market share in Tasmania, we have to make sure we at least win an equivalent amount or more from them interstate, which is what we have been successfully doing.

Mr WILKINSON - So the improvement is going to be as a result of these new matters that you have on board now. Is that why there is that \$10 million improvement?

Dr DAVIS - Yes, that is part of it, and Thomas will tell me if I need to expand some more. The other part of course is the major distribution business, which we describe as our major core business. Because the Regulator has required or has agreed with our suggestion that the Tasmanian community needs additional investment, we are investing nearly \$600 million in that network over the next four years. The way the system works is that we are entitled to earn a return of 7.51 per cent on that. The fact that we are spending extra money for every \$100 million that we spend means there is another \$7.5 million return that we get. So effectively, because we are growing the size of the asset base and we earn sort of like a bank interest rate on that, that translates back into improved returns as well, recognising, however, that you have to increase your debt levels as well to fund that activity.

Effectively, Aurora is not a bank; we are definitely not a bank, but to some degree we are a bit like a bank because we have to fund the assets up front. We build them for the people of Tasmania. If you go out, for instance, to Cambridge, you will see a wonderful new shopping centre out there and developments at the airport and so on. Lots of lights on at night, clearly there is electricity infrastructure there. Two years ago that was a paddock, so that is what we call customer-generated work. In the case of that Cambridge installation alone, something like \$8 million worth of electricity infrastructure has gone in to enable those shopping centres to be open and built.

We do not get \$8 million from the customers on day one, we earn that \$8 million back at a rate of 7.5 per cent over the next 20 or 30 years. The reality is that we have the bow wave effect where we fund the infrastructure upfront and then you get the returns over time, and over time you will see your profitability improve.

[3.00 p.m.]

Mr WILKINSON - There is a conflict there really because Hydro is saying to conserve energy, to turn your lights off -

Mr LLEWELLYN - I think Aurora says conserve energy as well.

Mr WILKINSON - Yes, and yet in relation to Aurora you are out there to sell it and sell as much as you can because that is competition. Can you see any problem in relation to what, to me, would seem a conflict?

Dr DAVIS - I like that question. That is a question I have had over many years because some people who have seen me at this committee in previous years would remember that my training was in energy efficiency and renewable energy. I was the initial head of Australia's first integrated energy management centre and when I became the General Manager of Retail before I became CEO, I always got that question, is there not a conflict?

Mr WILKINSON - This was not a Dorothy Dixier, was it?

Laughter.

Dr DAVIS - It is a very important question. At the end of the day, we are all very conscious of sustainability and climate and things like that and the cost of electricity has gone up. People will only use our product if they think they are getting value for money so we need to promote efficient use of our product so people get more and more value out of it and then they are happy to pay the bill. For instance, we promote the use of heat pumps, which have an efficiency factor of 300 per cent so for every unit of electricity you put in you get three units of heat out. We could promote direct electric heaters, which are one unit of heat for one unit of electricity, but we know that a person who is running a big direct electric heater will get a high bill and then they will be unhappy and they will think 'Electricity is expensive' so we promote energy efficiency to make sure that customers get the best possible value out of the product.

There is absolutely no conflict. If we were to promote growth for the sake of growth, I think you would find that was a very short-term strategy which would not work in the long term. In Tasmania, where we have largely a renewable energy system, we think it is very good that people do use electricity but, just like the Hydro, we want people to use it wisely. So it is about wise use and efficient use and not necessarily about switching off. When the customers at Cambridge turn up and say that they want to build a big shopping centre and a range of retail outlets it is not a good strategy to say, 'Go away, we're trying to save energy' but what we will do is to say that we can put it in but we will give advice on how they can put in efficient light fittings, efficient air conditioning plants and so on.

Mr WILKINSON - One of the questions I want to ask in relation to the business that we were just speaking about is your debt to equity ratio. What is it now?

Mr LLEWELLYN - It has already been answered.

Mr HASKER - Thomas gave you an answer but would you like him to -

Mr WILKINSON - If you can and what I was going to do was then compare that to what it was five years ago, two years ago, now and what it is expected to be, say, in two years' time?

Mr GRIBBLE - The debt capital five years ago was in the range of 50 per cent, so 2003 was 52 per cent, 2003-04 was 49 per cent and now it is running at 58 per cent. For Aurora, as the parent company moving into the next year, we would expect - and I have not the number here, I

am sorry, for the forecast for next year - it will be around there. We have targets within the company and we will be operating within our target so it will not be very much different to that.

Mr WILKINSON - And the target is what?

Mr GRIBBLE - It is 60 per cent - no higher than.

Dr DAVIS - Perhaps, Jim, there is an addendum to that. We are talking here about debt to equity ratios and in fact I have to confess a number I gave the committee half an hour ago did not allow for the 60-40 split. I was referring to our return on the network assets as being 7.5 per cent and that is allowed cost of debt, but of course we have equity in there as well so in fact the return that the Regulator has allowed us is 6.64 per cent. I should put that number on the record for completeness.

Mr LLEWELLYN - Does the Australian Energy Regulator get these transcripts?

Dr DAVIS - I am sure all the regulators talk very closely with each other, Minister.

Laughter.

Mr GRIBBLE - I have spoken about the Aurora parent, which is the existing Aurora company. Obviously, the debt to equity ratio will be different when you take into account the new power station, the AETV Pty Ltd. I am sorry, I have not the number for the projections for that after all the debt is drawn down with that and what the consolidated outcome will be. It will be higher than the 58 per cent that we are at now.

Mr MARTIN - You may have covered this. When the Chairman asked a question and you corrected him, I wanted to follow that and find note 16. I do not think you covered it, though. He originally asked about the difference in borrowing from \$323 million to \$555 million and you correctly pointed out that the borrowings were \$505 million. The difference, of course, is that \$181 million has been moved from current liabilities to the non-current liabilities. Did you explain why?

Mr GRIBBLE - Absolutely. Yes, if you remember, we were talking about the way we manage our borrowings and whether we have borrowing hedged or held in cash at any given time. That is around the strategy that the Treasury committee, which manages this very closely, takes. At the end of last year we had some debt that was held for accounting purposes as current and it has since been moved in, as part of our strategy and part of our monitoring, to non-current.

Mr LLEWELLYN - Is that all?

CHAIR - No, we are just dwelling for a moment, that is all.

Laughter.

Mr WILKINSON - Can we focus for a short time on the Tamar Valley power station and, first, what is the expected cost of completing the station and how will the capital works be funded?

Mr LLEWELLYN - I will pass that on. We have already mentioned the indicative arrangements in the actual sale with public announcements that we made with regard to the acquisition of the power station. The fact that acquired the balance of the power station for \$100 million or thereabouts and that we have -

Mr WILKINSON - There is a lot of work that needs to be done to get it to work, doesn't it?

Mr LLEWELLYN - Yes, some \$200 million. I think we have the exact figures here somewhere but Dr Davis can mention them.

Dr DAVIS - Chairman, the Premier, in fact, made a speech to Parliament when he announced on 19 August that the Government would acquire the Tamar Valley power station and he put on record some numbers. I am pleased to report that, as we track along, those numbers appear to be still be correct. The Premier advised that the Government paid Babcock & Brown Power \$100 million for the partially constructed station and envisaged that the total construction cost was going to be, and to quote the Premier, 'around \$340 million'. The implication was there was a further \$240 million to be spent and I can advise the committee that our estimates are that is still of the right order. Tascorp have provided us with a borrowing line of credit facility of \$260 million which gives us some contingency. The directors of AETV, which is the Aurora Energy Tamar Valley Pty Ltd, the company managing that, are very focused on ensuring that the power station is bought in for that anticipated number of \$340 million and certainly no more than \$350 million.

The Premier noted that the value of the power station will probably be of the order of \$500 million at the time it is completed.

Mr WILKINSON - You probably touched on this a short time ago, but with the projection of those costs, how are they going to affect the financial performance in the year 2008-09?

Mr GRIBBLE - In the year 2008-09, we will largely have a construction project, so we will have interest costs. The power station will not start to generate at its full capacity until the 2009-10 year.

Mr WILKINSON - Over those next two years then, how is it going to affect Aurora's position?

Dr DAVIS - I think the answer to that is that we will have a brand new business which will start generating income in the form of electricity sales.

Mr WILKINSON - In two years' time?

Dr DAVIS - That is right.

Mr WILKINSON - What is going to happen to it in the interim?

Dr DAVIS - In the interim we will have acquired the asset, also the matching amount of debt. As I flagged, effectively we will be taking on \$260 million worth of debt to build the power station. Once that is consolidated up into Aurora's accounts, then clearly that does have an impact. We are able to manage that, but we are certainly looking very closely at the impact that will have on our ratios and determine if any further equity might be required to set things straight.

As Thomas has indicated, we have a target of 60 per cent debt to equity. Clearly borrowing an extra \$260 million will change that number and we are currently modelling the impact that that will have on Aurora's balance sheet profit and loss.

CHAIR - It will be an interesting scenario, because when it is completed you will be competing against Hydro as a generator.

Mr LLEWELLYN - Yes.

Dr DAVIS - That is correct. That is always an interesting position to be in because Hydro is a major supplier to us and a very important upstream supplier, but they will also be a competitor. The benefit of that of course is that -

CHAIR - Is this going to sour the relationship down the track?

Dr DAVIS - I think that it is a strong commercial relationship in any case and the fact that Aurora has some of its own capacity is very valuable in terms of offering competitive prices into the Tasmanian market. We need to remember, however, that the Tamar Valley power station in terms of the most efficient unit which is a brand new, state-of-the-art 203 megawatt Mitsubishi combined-cycle gas turbine - quite a mouthful -

CHAIR - Can you say that again?

Laughter.

Dr DAVIS - There are a number of pieces of equipment. There is a 203 megawatt combined-cycle plant, brand new, as I mentioned. There is a 60 megawatt Rolls-Royce Trent turbine, which is a backup. There are three by 40 megawatt what are called FT-8s which are Pratt & Whitney gas turbines -

Mr WILKINSON - These old farmers get excited when you are talking like that.

Dr DAVIS - They are all backups, in the event that the major power station kicks out. The one that will be providing the truly competitive electricity in competition with Hydro Tasmanian is the new Mitsubishi unit. It is 203 megawatts, whereas the average load in Tasmanian is something like 1 200 megawatts. It has some impact in terms of competition but the reality is that Hydro is still the major supplier in this State. We have a little power station that can bid 200 megawatts in competition with them and Aurora will be taking that 200 megawatts. We will have contracts between the power station, which is AETV, and Aurora and they will be commercial contracts for that power station to support Aurora through a hedge contract.

Mr WILKINSON - Getting back to that debt to equity ratio that we were speaking about, to me that is going to change over next two years but after that what you are doing is offset that on the basis of the asset that you have with the power station.

Mr LLEWELLYN - The asset and liability equation is somewhat different because, as Dr Davis mentioned, it is envisaged that at the completion of the power station that will cost some \$340 million to construct, the power station is likely to have an asset value of \$500 million.

Mr WILKINSON - That is what I am saying. Even though there might be a bit of pain for two years hopefully that pain is going to be eased big time after the building is completed. Is that a fair conclusion?

Mr LLEWELLYN - There will be some of the plant next year, perhaps just following the end of the financial year. Obviously, the commissioning of various parts of the plant and the arrangements for running that plant are important in the overall energy scenario given the hydrology issue and so on. We would possibly have the Trent unit, the 60 megawatt unit, that can come on line prior to the combined-cycle turbine and then there will be a series of commissioning of the turbine including selling the energy as well as commissioning the plant, so that will gradually ramp up.

CHAIR - In regard to the actual output of the Tamar Valley power station the frequency issues were raised at the time that the bill was done, and whether or not the technology is right to be able to feed the whole power output into the grid. What is happening?

Mr LLEWELLYN - Again, this is an issue that affects all of the businesses from the point of view of a shareholder of all of the businesses and in trying to keep our ring fences around the individual trade practice arrangements from other businesses.

Mr MARTIN - You do not have a conflict of interest?

[3.15 p.m.]

Mr LLEWELLYN - No, not the shareholders; they do not. We have to take our hat off and put another hat on. The reliability panel is re-looking at issues for the next month while certain other things are considered but we are convinced that there are no overriding issues that will prevent proper transition there. There will be some costs for Aurora and the Hydro and there will be sharing of that arrangement. From a connection point of view, we believe that there is nothing to stop that happening.

Mr HASKER - Chair, the Tasmanian market operates on a different frequency arrangement than the mainland. We do not know the outcomes of this independent panel at this stage. Dr Davis perhaps might explore for you the scenarios that will emerge.

Dr DAVIS - I think the minister has covered it extremely well. We wait for the independent umpire's view on what the frequency standards will be.

CHAIR - I did not know he had such a technical grasp.

Dr DAVIS - It is quite remarkable really. Clearly they are working diligently to ensure that the power station is connected but the establishment of the frequency standards and any adjustment to those is a matter for the Australian Energy Market Commission Reliability Panel, which is a national panel.

Mr MARTIN - Is there a fall-back position, though, if it does not work out?

Dr DAVIS - I think there are always fall-back positions, but there is absolutely no doubt it will work out. It is just a matter of exactly how the sharing of issues is balanced out. The issue here is that there is a 203 megawatt unit and it will be the largest single unit in Tasmania. The previous largest single units are the power station generators at the Gordon Power Station, and

they are 144 megawatts. We want Tasmania to connect a new, modern gas plant and this is the first piece of it. It is a little bit larger so we have to make sure that all the standards are met.

CHAIR - Just to put that into perspective, what does the Woolnorth wind farm put out for the State?

Dr DAVIS - I think Woolnorth is about 75 megawatts.

CHAIR - And the projected north-eastern one?

Mr LLEWELLYN - There is Studland Bay there as well, which adds to that - 130 megawatts -

Dr DAVIS - None of them are as large as this single unit. One of the issues here is that to achieve competitive price outcomes for Tasmanian customers the unit needs to have a certain size. By world standards, a 203 megawatt combined-cycle is a baby. It is about the smallest one that Mitsubishi makes, but it is a good size for the Tasmanian market. It is bigger than the 144 megawatts at Gordon so there are some issues of frequency that the technical experts are working through and resolving as we speak, and we look forward to their findings.

CHAIR - You are not too concerned that their findings might cause you some anxiety in significant extra expenditure?

Dr DAVIS - No, I do not believe they will cause AETV too many problems.

Mr MARTIN - Back to the budget - looking at the balance sheet, cash on hand in previous years has gone from \$33 million down to \$12 million, up to \$56 million and this year down to \$3.2 million. That makes it a pretty tight cash situation prima face.

Mr HASKER - At a point in time, when the photo was taken on 30 June.

Mr MARTIN - You do make note of it in the comments. It is due to capital expenditure and dividends, I think.

Mr LLEWELLYN - It really is only a snapshot of what happened at that particular stage.

Mr GRIBBLE - I think if you look at the cash and cash equivalents on page 81 of the annual report, in 2007 we had \$33 272 000 in cash and cash equivalents and in the year just gone, 30 June 2008, we owned \$3 172 000. It is a very simple fact of timing of a NEMMCO payment. Those payments are made fortnightly, I think; it depends on where that fortnight falls. In 2007 we were just coming up to a payment, in 2008 we had just made a payment. As has been said, this is a point-in-time snapshot. In any company such as this you have large payments that are made on a regular basis and it is just how they are timed.

Mr MARTIN - So there is no likelihood that the board would consider recommending no dividend next year?

Mr HASKER - It is most unlikely.

Mr MARTIN - Are you able to tell us what the interstate retail revenue is as a percentage of business?

Dr DAVIS - As a percentage of the overall revenue?

Mr MARTIN - Yes.

Dr DAVIS - The overall revenues are now of the order of \$902 million and I think the interstate figure is about 10 per cent.

Mr MARTIN - The broadband over powerlines trial saw a write-off of \$3.1 million. Do you think, in hindsight, that you should have discontinued the trial earlier?

Mr LLEWELLYN - Earlier?

Mr MARTIN - Yes, what was the chief reason for the final decision to bail out of it?

Mr LLEWELLYN - Again, Dr Davis is better able to answer that particular part of the question but I think if you have a trial on a particular piece of equipment, you have to give it a good appropriate trial otherwise you are not making appropriate judgments for it. As time moved on with that trial, it became apparent that other technologies were better placed to meet this issue. That is not to say that broadband on power lines or the actual technology itself might not be used in a different sort of way sometime in the future - smart metering and all those sorts of things - so it is still possible that that aspect might emerge nationally in the future. If that did happen, Aurora is well placed for the knowledge that it has gained through this particular trial. I will let Dr Davis make a comment.

Dr DAVIS - The write-off is an accounting trick because it is not translating into a specific new business but, from a strategic perspective, we gained a great deal of knowledge out of the broadband over powerlines trial. I think it is fair to say that the pace of change in telecommunications, basically, overtook that initiative -

Mr WILKINSON - It always scares me a bit, that - why not just say we gained a bit of knowledge?

Dr DAVIS - I think we have because it is has led us directly into the telecommunications optical fibre strategy. There were people who were working on broadband over powerline and its systems and ideas of dealing with customers, and we have been able to build on all of that. If you look at what has happened nationally, we had the termination of the OPEL project, which was what the Howard Government were talking about as a way of rolling out broadband into regional areas, and we now have the commencement of the national broadband network process.

So Aurora's broadband over powerline trial was a world leader. We were the largest demonstration of that type in the Southern Hemisphere. I make no apology as the head of one of Tasmania's largest government enterprises for us investing in new technology and looking for opportunities. If, after all of that, we discovered there was nothing for us in telecommunications, I would probably say, 'That was a bit disappointing', but the good thing is it changed our direction a little bit and there is something for us in telecommunications because we now have this opportunity to bring broadband services to Tasmanians in competition with the incumbent telecommunications provider.

The fact that we are doing it through a different technology is not too much of an issue. To put it in perspective, over a six-year period the combined investments that Aurora made, both in its retail business with our retail telecommunications, which was TasTel, and the broadband over power line trial was less than \$1 million annually, which is less than 0.15 per cent of Aurora's annual revenue. It is quite a modest investment but a huge amount of experience gained and that has actually given us a step up into now being able to offer a fibre-based solution to Tasmanian customers. Given what happened with the change of government federally, that was probably a really good outcome because we are now well positioned there.

Mr MARTIN - Thank you.

CHAIR - I suppose, Minister, a burning question for Tasmanian consumers is, as I think most Tasmanians would appreciate, why power prices have gone up, but can Aurora give an indicative figure as to what sort of increases the Tasmanian customers might expect over the next five years?

Mr LLEWELLYN - The process that we have with regard to energy cost and pricing is one whereby we have a five-year regulated period. We have the Australian Energy Regulator determining the appropriateness of the pricing structure as far as distribution systems are concerned. We have the Australian Energy Regulator price setting as far as the transmission services are concerned. We look, from a generation point of view, for an independent source of information as to the cost increases that are likely in regard to generation through a Treasury process. Those three components are then aggregated and that ends up being the actual price to consumers.

As you know, from a generation point of view, 60 per cent of the power that is generated is actually attributed to our major industrials. Each of those major industrials, as we are operating in the National Energy Market, and as they come up for their longer-term contracts to be renewed - the biggest of which is Rio and that happens in 2014 - will have to take on board the competitive nature of the businesses. In the past there have been quite large subsidies in the major industry area, as people are well aware, and that is working its way through the system itself. There will be positives and negatives as far as overall costs of energy coming out of Tasmania.

There will also be the component of carbon, which will emerge no doubt with the renewable energy targets and the new carbon pollution reduction scheme that the Federal Government is going to introduce and that will be reflected back in the system. I think the only thing that I could say definitely is that prices will rise over time.

Laughter.

CHAIR - Just in regard to what you said about Rio being the biggest customer and when they come to renegotiate their contract again, do you think it is unfortunately the case that the power costs might be too great for them to stay in Tasmania? Hence some of our heavy industry that we have had over time -

Mr LLEWELLYN - I do not believe that is the case. Rio can substantially say, as a company that uses a lot of energy, that they are actually utilising renewable energy here in this State because by and large the energy we are producing is renewable energy. So there are some advantages still but they, nevertheless, will have to operate on a competitive basis and those sort

of decisions will have to be made at that time. Relative to their other businesses around the world - and really this is probably something that needs to be further assessed as far as the actual cost of energy in other countries - I cannot foresee that the energy in Tasmania is going to be hugely more expensive than the other countries, quite the opposite.

CHAIR - That is an issue that Nyrstar have been raising. It is in Mr Martin's electorate and the issue with the Federal Government at the moment is to -

Mr LLEWELLYN - But they have had their contract renewed with -

Dr DAVIS - With a New South Wales retailer.

Mr LLEWELLYN - But the costs through Hydro are not the issue as far as Nyrstar is concerned. They are quite happy with the -

Mr MARTIN - It is a big factor.

[3.30 p.m.]

Mr LLEWELLYN - It is a big factor but they are happy with the contract that they wrote on energy. There are other issues around the CPRS, around the green paper, which has a perverse affect on certainly the Tasmanian operation as against perhaps their operation in South Australia, which is a bit different. But the Tasmanian perspective throws up a perverse aspect. We have been arguing that Professor Garnaut, in his paper, had it right and the green paper, in fact, is not the way to go. We are hoping that will be reflected in the white paper once it is brought down.

CHAIR - Just getting back, Minister, as you very succinctly said, 'There will be increases'. We are domestic consumers. If I put on another hat and say I have a few irrigation pumps and all those things that consume a lot of power, what percentages should I be factoring in for the next five years?

Mr LLEWELLYN - I think you will need to -

Voice - Panic?

Laughter.

Mr LLEWELLYN - No, I do not think you will need to panic. But you will need to expect, and it has already been foreshadowed in the AER deliberations that have occurred in the next period, the determination or the cycle of events that are there from a regulation point of view and the sort of increases that are likely over time. So that is public knowledge and it has been in the newspapers and in the media now for some time. So you will need to talk to your bank manager in light of what has been publicly said.

CHAIR - He already has a keen interest in it.

Mr MARTIN - You could put a wind farm in.

Mr LLEWELLYN - On the other hand, given the financial crisis and your capacity, Mr Hall, interest rates are down now, so now is the time to go to the bank manager.

Mr WILKINSON - It is an interesting matter, isn't it, because prices are going to increase, no question about that.

Mr HASKER - Particularly with the government thrust on renewables and the inherent cost of that, I think you will see substantial increases.

Mr WILKINSON - Sure. Householders are going to suffer, there is no question about that. Therefore, there are going to be new products coming into the market, such as solar et cetera, where people will be looking at other ways of obtaining their energy. Has that been factored in by Aurora and, if so, to what extent?

Dr DAVIS - I think the answer to the question is, yes. People will respond to higher prices by making decisions. They might choose to use less. They might choose to switch fuel source and go back to polluting wood heaters. They might choose to install solar panels. So, yes, we factor all those things in as a response to increasing prices. The economics term I think is price elasticity of demand so you have those numbers.

The reality is that the Regulator in Tasmania went through a comprehensive independent process with public consultation, including from the irrigators and all the other sectors, to work out what was needed to make sure that Tasmania had a robust and reliable source of network supply, going forward, that could accommodate the growth in Tasmania and deliver improved reliability for Tasmanian customers. That was where the \$588 million capital program came from. Then when you look at the cost of everything, everything has gone up, the cost of fuel and cost of labour and the cost of copper and the cost of contractors. So the Regulator took all that into account and came out with a regulated price path for the next four years.

To put a number around the minister's commentary there, the number in terms of the Aurora portion is 4 per cent or the order of 4 per cent increases but it is being used to fund improvements that the Tasmanian customers will see.

Mr LLEWELLYN - The word I was trying to think of was regulatory reset.

Dr DAVIS - So there is about 4 per cent there but that is the Aurora part. I think the minister has correctly flagged that there are a range of other external processes which are going through the debate at the moment. One of those is the carbon pollution reduction scheme. We do not know where that is going to land and, yes, it will have an impact on Tasmanian customers. So we certainly recognise that. We provide advice on energy efficiency, we promote the use of insulation; we provide a buy-back tariff for solar. We do all of those things, but even with all that we recognise that some customers will get themselves into financial difficulty or find it very difficult to manage. I think Aurora has committed \$125 000 in the year to supporting the welfare agencies, and that money is handed directly back to customers in need through electricity vouchers. We provide payment plans, and I think the Acting General Manager Retail might look up in his document and he can tell you how many of those payments plans we have made during the year. They are all efforts to help ameliorate the effect of the increase in prices.

Mr LLEWELLYN - The other thing to note is one aspect of the green paper that is good, from my estimation anyway. There is a realisation that the carbon pollution reduction system actually is designed to assist low income working families through this particular problem. That is on top of what State governments do by way of community service obligations. You will recall

that we are now the most generous in the nation to pensioners with a 70 per cent increase in the actual remissions that we make through the pension system, and so on, for such customers.

Mr MARTIN - There are a lot of low-income people not on pensions, though.

Mr LLEWELLYN - Yes, I realise that, but the point I was making was that CPRS is designed to take those families into consideration as well.

Dr DAVIS - Perhaps, Mr Chairman, if we could give Scott Adams an opportunity to speak about some of the things that we are doing to help the community, and those customers who find themselves in difficulty.

Mr WILKINSON - Whilst he is doing that, could he also help us in relation to how many people have requested assistance, as opposed to previous years?

Mr ADAMS - Certainly I can do that. In regard to the payment plans that Peter referred to, in the last financial year we wrote 4 448 payment plans. They contacted us to make arrangements to pay their bills over time. In addition to that, there are 45 725 debt reduction arrangements; that is where customers have rung us having received a bill and we have organised a short-term payment arrangements that will take a few instalments.

Mr WILKINSON - Is that just the one customer, or is that a customer who has made a number of requests, or both?

Mr ADAMS - The customer could make multiple requests.

Mr WILKINSON - So that 45 000 figure -

Mr ADAMS - That is the total number.

The committee suspended from 3.39 p.m. to 3.55 p.m.

Mr ADAMS - I was going to cover off the issue around the Aurora hardship policy. We set in place the hardship policy, as Peter outlined, to provide vouchers to help low-income earners struggling to pay their electricity bills, that was set at \$100 000 a year. In the last financial year, 1 069 payments were made to assist in that process. This year we made the decision to increase the hardship allowance in line with the price increases that are being experienced, so going forward in the current financial year that is \$120 000. We also committed to index that in line with future price increases, so the value of that is not lost going forward. That is a scheme that we run in partnership with the welfare agencies around Tasmania. Salvation Army is our lead agency and coordinates where that money goes.

Dr DAVIS - The other thing we do is support the no-interest loan scheme. Scott has been quite modest because I believe he is a board member of that organisation.

Mr ADAMS - We are particularly proud of the no-interest loan scheme. Aurora directly contributes \$25 000 per annum to support that scheme. It has been in operation now for about seven years and we have loaned a little over \$2 million to low-income earners.

Mr HASKER - What is the charity behind that one, Scott?

Mr ADAMS - It is run in partnership between ourselves and a number of welfare agencies, particularly Anglicare. It is designed to provide no-interest loans for essential household items which, going back to the discussion we had on energy efficiency, is helping people purchase energy-efficient appliances, particularly fridges and washing machines.

Mr MARTIN - I congratulate you on those schemes, Scott. In the Energy Ombudsman's annual report he has put some case studies and I have a query about your debt management policies. It might just be a one-off but there is a complaint shown in that report on page 17 where a residential property was disconnected with a debt of \$4 600. That seems an extraordinary amount for a residential property. I just wonder how on earth it could have got to that amount of money?

Dr DAVIS - While Scott is familiarising himself with that particular case, one thing I can comment on is that Aurora will only disconnect customers as a last resort -

Mr MARTIN - Yes, and that is good.

Dr DAVIS - and that might be an answer to why - and I am not familiar with the exact case - but it could explain why. We continue to persevere and it is only as an absolute last resort that disconnection occurs. But \$4 600 is quite a large account.

Mr MARTIN - Which does not do them any good either.

Dr DAVIS - No, that is right.

Mr ADAMS - I do not have any details for this particular customer but I note it discusses that they have been on four payment plans. Aurora's process is that once we enter into a payment plan with a customer we honour that payment plan. They need to default on a number of payments in that payment plan before it is considered to fall over and we take further action. We do not terminate a payment plan on the first default because that can happen for a variety of reasons. We give the customer every opportunity to catch up with their payments. As to why we have gone through four payment plans, that would have been a discussion on an individual basis with the client, a case worker if they had one, and the Ombudsman.

Mr MARTIN - Is there a set policy that you follow or a little bit of give and take?

[4.00 p.m.]

Mr ADAMS - We have a set policy, however for individual customers we do discuss, particularly if they have raised issues with the Ombudsman and they come up with a particular case-management approach with him. With a number of customers, if they have a case worker through perhaps one of the welfare agencies then we try to work on individual basis. Our policy is always to firstly try to address ongoing consumption so their debt does not increase, and then make contribution to any outstanding debt.

Mr MARTIN - With the pay-as-you-go system, apparently there have been some technical problems that have led to people not being able to get the power on overnight and over weekends sometimes. Do you have any issues like that?

Mr ADAMS - We had some problems earlier in the year in regard to pay-as-you-go with the failure of our point of sale network. We used a national company, Bill Express, to provide the point of sale network where customers could go and recharge their cards. That business, unfortunately, went into liquidation. As a result, we needed to institute our disaster recovery program whereby we went and established our own point of sale network so there were some delays of a few days whilst we implemented the disaster recovery program. However, in that situation Aurora did what was necessary in terms of field visits to set up the meter so the customers were not left without that.

Mr MARTIN - So was that only over the transition period?

Mr ADAMS - Yes.

Mr HASKER - Probably a week or so, wasn't it?

Mr ADAMS - Yes, over a week or so. The meters actually have a safeguard in them that they do not disconnect over weekends or over a certain time of night so they are billed. Even if the customer has not put the credit in and the meter runs out of credit, they have a functionality not to disconnect over that period.

Mr MARTIN - That could go wrong sometimes, though. There is a specific case where someone's meter ran out of credit and they were disconnected in the middle of winter. I imagine that is just an infrequent occurrence, is it?

Mr ADAMS - Yes, the meters have two levels of safeguards. One is that if they run out of credit there is an emergency credit and the customer can activate that and it runs into emergency credit to a value to give them an opportunity to go and charge it.

Mr MARTIN - And they have probably gone beyond that.

Mr ADAMS - Yes, they have gone beyond that. Again, there is the secondary safeguard that they do not cut-off over certain periods of the weekend, but if it is not that time then, yes, they can cut out.

CHAIR - Minister, we have talked about the fact that Aurora is a gas retailer but I think Mr Wing has some specific questions he would like to ask in that regard so I will hand it over to you, Don.

Mr WING - I appreciate the opportunity to raise just one specific matter here. That is the lack of availability of natural gas in quite a number of areas of Launceston. I would like to ask how many areas are known to be serviced by natural gas, what the policy of Aurora is, what the arrangements are between Aurora and Powerco for the installation of gas pipelines and, generally, what the policy and arrangements are and any plans for the future?

Mr LLEWELLYN - It is a difficult issue from my own perspective because, indeed, the Department of Economic Development are responsible for the roll-out of the pipelines and so on. The retailing aspect, obviously, is an issue with Aurora but I cannot give you that information myself, right here. Aurora may have some further information. I will ask Dr Davis.

Dr DAVIS - Certainly in terms of the roll-out of the natural gas distribution network we are but a mere retailer using the gas distribution network. We were not successful in winning the opportunity a few years ago to be the builder of the gas distribution network. That went to Powerco. Powerco, of course, is a subsidiary of Babcock & Brown who, indeed, have their own difficulties at the current time. So our activity is really to provide customer service and sales to those customers for whom Powerco have in fact provided a distribution pipeline. We really have little ability or influence over where Powerco puts that pipe.

Mr WING - Do you happen to know where the pipes are and what areas of Launceston you are able to supply with natural gas because pipelines are there?

Dr DAVIS - I do not have that information with me but, yes, we do have a map that Powerco provides. We use that so when customers contact us, if they are on the map, then we can obviously sell them natural gas, but if they are not we refer them directly to Powerco to see if they can encourage Powerco to extend their pipe down that person's street.

Mr WING - Would it be possible to have copies of that map, please?

Dr DAVIS - Yes, absolutely.

Mr WING - Is Aurora encouraging Powerco to make natural gas available to more areas so that you can retail more gas, as electricity is becoming rather scarce due to the drought?

Mr LLEWELLYN - I think the Government is certainly encouraging Powerco to distribute gas on a wider basis than what is there at the moment but they have obligations. It is going to take some time to roll it out but, again, I am not, I suppose oddly, the minister -

Mr WING - You are not oddly.

Mr LLEWELLYN - dealing with this particular issue. It is now the Treasurer, who is in your House and to whom you will be able to ask a direct question.

Mr WING - I have just left a meeting with him. He is dealing with TOTE. I will go back and ask him.

Mr LLEWELLYN - He is the Minister for Economic Development.

Mr WING - Yes. Does anybody have any idea of what general areas Aurora is able to service in Launceston?

Dr DAVIS - Not off the top of my head, Mr Wing, but I am advised that Powerco in fact have the maps on the web site. If you are connected to broadband just tap in Powerco and the map will appear.

Mr WING - Okay. Do not bother supplying a copy, I will take that up.

As Aurora is a supplier of natural gas where there are pipelines, are you able to say how much power is supplied in the Launceston metropolitan area or Launceston urban areas?

Dr DAVIS - Again, it is a competitive market. We compete directly with other gas retailers to win customers and market share so it is a commercial-in-confidence number how much of the gas customer base in Launceston has gone to Aurora and how much has gone to our competitors. Unfortunately, I do not have the information at hand but it is the sort of information that we really would not want to publicly publish in any case because it gives our competitors an understanding of what we are doing. Those competitors are publicly-owned companies that do not have this particular scrutiny, so we cannot see what they are up to of course.

Mr WING - I understand that there are a number of gas pipelines in the city as a result of the previous provider of gas, the Launceston Gas Company. They may need some upgrading but they are considered to be suitable for use. Does that interest Aurora at all in somebody upgrading them so perhaps you can provide some more gas?

Dr DAVIS - I think the answer to the question is that the old town gas system is sufficiently tired. It basically needs brand new infrastructure and of course Powerco won the contract from the Government to build that infrastructure. Our interest is largely as a gas retailer who would like to service customers and we certainly have gone into bat for particular customers who find themselves near the gas network and have encouraged Powerco to make the connection but, at the end of the day, it is a business decision for Powerco as to whether they think it is justifiable spending extra capital to connect the customers up.

Mr WING - A final question, would Aurora find it helpful to be able to sell more gas in view of the need to import the Basslink electricity from the mainland?

Dr DAVIS - I think it comes down to customer choice. We actually have a lot of Victorians who have moved to Tasmania for quality of life, I think, and they all seem to want to connect to gas. We need to be able to provide them with that service because they are used to that and that is what they see as efficient heating. I always like to remind customers that in terms of greenhouse gas emissions, assuming it rains of course, the majority of electricity in Tasmania is carbon-free and is produced by hydro plant and so you can produce electricity through a heat pump very efficiently compared to combusting fossil fuel as gas.

Having said that, it is obviously more efficient to produce heat if you are going to use gas to use it directly as a gas heater than to put it through a gas-fired power station and convert it into heat which is then electric. It depends a little bit on the fuel balance so I guess our interest in gas is really in response to customer demand and it is a slow-growing area of demand. I think that Tasmanians are used to their long and proud heritage of hydro power and that still seems to be the preferred mode of heating for the majority of Tasmanians.

CHAIR - To follow on with Mr Wing's questions, does Aurora have a view about the extent of the gas rollout and whether it should be expanded? I know it is in Powerco's hands.

Dr DAVIS - At the end of the day, we have talked about Aurora's purpose which is to see the Tasmanian community prosper. As proud Tasmanians we believe that we should have very good infrastructure so that our customers can conduct their businesses and live a high quality lifestyle. The further we improve our electricity network, our gas network, our telecommunications network and our transport network - all of those things that give us a quality of life - I think that we are probably like everybody else in that we support that. But at the end of the day these things have to have a business case and the matter of the business case is for Powerco.

CHAIR - How many other competitors do you have in that retail part of the gas market in Tasmania?

Mr ADAMS - In small retailing there is one other competitor.

CHAIR - So there is just the one?

Mr ADAMS - Yes, so there are two licensed gas retailers and in the commercial end I believe there are three.

CHAIR - I think the other questions I had on gas and what we previously asked are just about done.

Mr MARTIN - In relation to advertising sponsorships, what is the total expenditure on advertising and community sponsorship?

Mr LLEWELLYN - There are very good results from the advertising of Aurora.

Mr MARTIN - I did not ask about that, that is my next question. I am interested in the total cost.

Mr LLEWELLYN - Advertising activities and costs.

Mr HASKER - Do you want Scott to dissect it for you, Minister?

Mr LLEWELLYN - He can do, yes. We could go through this table but I think it would be better for Scott to cover it.

Mr HASKER - Crystallise it, Scott.

Mr ADAMS - In terms of the total advertising and associated marketing expenditure for the 2007-08 financial year, it was just over \$2.1 million, which includes brochure production, advertising and all promotional and marketing activities.

Mr MARTIN - So your total advertising and marketing budget is \$2.1 million. Does that include the cost of the naming right sponsorship for Aurora Stadium?

Mr ADAMS - Yes, it does.

Mr MARTIN - How much would that be?

Mr HASKER - It is a commercial arrangement.

Mr MARTIN - Obviously, but is it commercial-in-confidence? Why?

Mr HASKER - There are a lot of other people who have their eye on taking over that arrangement and I think that they would have a head start if we were to tell them what the arrangement was. I am not being offensive but I think that is a real fact of life.

Mr MARTIN - I was thinking that it was both government and Launceston council owned but I understand.

Mr WILKINSON - I suppose the issue with it is, can you see the return? What is the return from it?

Mr HASKER - They won a premiership, didn't they?

Laughter.

Mr WILKINSON - It has to improve the business of Aurora and that is why you do it together with endeavouring to help the community as well.

[4.15 p.m.]

Dr DAVIS - I think we would have to say that Aurora's involvement with the AFL stadium in Launceston is something that we have been very pleased with. I think we have tremendous national publicity about the fact that it is now called Aurora Stadium, and it is up there alongside Telstra Dome and various other major venues around the country. It has given us a national profile that is extremely valuable.

Mr MARTIN - Is your target market for advertising the residential consumer interstate?

Dr DAVIS - That is one of the target markets. To access that interstate market through other means would mean running advertisements, and would be very hard, so it is very cost-effective in terms of getting mentions. I cannot remember if it was this year or the previous year that there was the famous occasion where the siren failed to sound -

Mr MARTIN - I was there.

Dr DAVIS - and that got Aurora's name right around the country. We estimated that the failure of the siren was worth several hundred thousand dollars in free advertising, so -

Mr WILKINSON - It was not anything to do with the energy to get to the siren, was it?

Mr HASKER - The first thing I checked, Jim.

Dr DAVIS - That is part of the market because it gives us a national name and profile, but it is Tasmanian-based. The other thing is it is very much in line with our Tasmanian community focus and purpose to support activities in Tasmania, so we think it would be very disappointing if one of our competitors from interstate had the naming rights for that stadium.

Mr MARTIN - On that same line of questioning, I noticed in the AFL grand final this year you were advertising. Was that advertising interstate coverage as well as in Tasmania?

Mr ADAMS - No. The advertising through the grand final, the below-the-screen advertising you see, targets the Tasmanian market.

Mr MARTIN - I think that is the most expensive advertising program in the calendar. What target market were you after with that, and do you have a cost-benefit analysis of the result of the advertising?

Mr ADAMS - With any television advertising we do, we assess the timing of the advertising and the penetration it is going to get. Whilst advertising in AFL grand finals is expensive, it is also the most watched program of the year, and it times well with our overall annual marketing campaign. For any TV campaigns we do a cost-benefit analysis beforehand, and then a review afterwards to see what the success of those campaigns was.

Mr MARTIN - So your target market is the Tasmanian consumer, obviously.

Mr HASKER - Yes.

Mr MARTIN - What percentage of the Tasmanian residential market do you have at the moment?

Mr HASKER - A hundred per cent.

Mr MARTIN - That is what I thought. Why do you need to advertise?

Mr HASKER - The minister said that the full retail contestability is not upon us yet.

Mr MARTIN - That is why I cannot understand why advertise -

Mr HASKER - Terry, the awareness and the brand loyalty is something we need to build now, not when it happens.

Mr MARTIN - Okay. The reason for the advertising - and I kind of guessed that might be the answer - is to build the brand awareness by 2010, yet there is no guarantee that it is going to happen yet.

Mr ADAMS - Whilst the target is the residential end, it is the small business sector as well, which is competitive now and continuing to open up with the tranches. So it is not purely residential-focused, it is in that competitive space. It also includes a fair amount of advertising around some of our safety and community awareness issues on fire safety and vegetation management safety, so the numbers I quoted earlier -

Mr LLEWELLYN - Energy conservation as well.

Mr ADAMS - cover all of our promotional activity, including safety of our overhead lines, vegetation clearing.

Dr DAVIS - I think we need to put it into perspective. One of the good things about being Tasmanian-based is that the media in Tasmania is more cost-competitive than it is in other States. The total value of spend that Aurora puts is less than 0.2 per cent of revenue, so it is quite a small number. The actual television, press, radio component - for instance the bit that is targeted at residential - is only about \$61 000. We do intend to focus our spend more on the competitive part.

Mr MARTIN - I would have thought \$61 000 would have paid for the grand final.

Dr DAVIS - We probably got a special deal. General corporate branding is \$450 000 in television.

Mr MARTIN - Is it possible to get a list of the sponsorship deals that you have given during the year? You can take it on notice, if you like.

Mr WILD - The sponsorship program operates across the State and includes a very large number of very small donations. There are hundreds of donations a year to charitable organisations.

Mr HASKER - Adrian, do you want to talk firstly about the policy which underlies the transactions that follow, who is likely to qualify and who is not, and the mechanism you use to develop that outcome and then answer Terry's final question?

Mr WILD - The essential overriding policy is obviously protecting and enhancing the reputation of the business. There is an established structure within the organisation which involves input from all the business divisions on the decision-making process, a well established set of guidelines and policy criteria which are detailed on our web site for anybody who wishes to apply. There are certain preconditions. For example, in relation to sporting sponsorships, rather than sponsoring one football club and then finding that there are another 55 who say, 'Why not me?', we have a policy of supporting the governing body rather than the individual organisations.

In the charitable area there is a general acceptance that Tasmanian-registered tax-deductible charities get a small contribution on application on an annual basis. Among our employees there is a fairly substantial safety bonus scheme so that when our employees achieve certain milestones in relation to safety performance at their depot or work site, they are entitled to an allocation of \$500, \$1 000 or \$2 000 which they freely contribute to their local community as they see fit.

We do have a number of larger, continuing sponsorships within that framework and I am happy to read through a dozen or so of those.

Mr MARTIN - I would be happy for that to be tabled.

Mr WILD - I would be happy to table it, but without the dollar amounts contained. So, if I may, I will provide that to the committee later. Once again, we are in competition for our brand positioning with other organisations that compete with us for space. An organisation may come to us, they may well have also gone to Origin Energy or the telecommunications companies that we are competing with. I am happy to detail the scale and scope of our sponsorships and our total allocation in the order of \$600 000 a year. I would rather keep the individual agreements with those organisations confidential, is that is okay.

Mr MARTIN - That is fair enough.

Mr HASKER - Adrian was out of the room when you asked your questions about Aurora Stadium, Terry. Was there anything left hanging over?

Mr MARTIN - I would like to know the figure.

Mr HASKER - I am afraid I will not allow him to give you that.

Mr MARTIN - No, that is fine.

Mr WILD - I should say on that, though, we reached a very good collaborative arrangement with the Launceston City Council, which both they and Aurora felt would benefit the State and particularly the northern region. We did do that in direct competition with other suitors and one of the underpinning objectives there was to position Aurora at a highly recognised, high profile site, as making a contribution to something that we felt the Tasmanian community in the broad would endorse.

Mr MARTIN - Adrian, have you done any measurement of the success of that?

Mr WILD - We do measure the advertising brand value of that site. We obviously track the costs and the performance delivery and everything from bums on seats for individual matches. The council agreed to a range of performance measures that include a certain number of customers through the turnstiles every year. They report to us on that annually and on a match-by-match basis on some of the less detailed analysis, and we have a review opportunity every year. Obviously, our agreement is aligned to the continuation of the AFL decisions about its Tasmanian activities. The duration of our agreement is linked to other commitments made with third parties in which we are not a direct player.

CHAIR - Minister, in regard to the forecast for energy demand growth, how does that compare with the past? Is it expected to be affected by the economic environment and what may happen down the track? Do you have some forecasts there?

Mr LLEWELLYN - Obviously there is going to be some effect from the real effect from the global economic slowdown, but I think the effect in Tasmania is going to be somewhat delayed, which is what occurs naturally.

CHAIR - We seem to be the last to feel the pinch and the last to get going again.

Mr LLEWELLYN - I will refer that to either the chairman or Mr Devereaux.

Dr DAVIS - Through you, Minister - I think it would be appropriate to recall our general manager, network, to the table because John Devereaux is responsible for our large investment program, which has to be very much tied to any future forecasts of demand. The whole capital program is built around assumptions of customer growth at the moment.

Mr HASKER - Chair, this is a world phenomenon, as you well know. I do not think Australia or Tasmania is going to escape some tough times.

CHAIR - No, but I think the question is reasonable, considering you have a lot of capital expenditure there. What is the projected demand growth for the State?

Mr DEVEREAUX - Chair, the load forecasting process is one that we undertake jointly with Transend. It has been remarkably steady looking back over the last 10 to 20 years; it has been around 2 to 2.5 per cent growth fairly consistently. In the last three to five years there has been a notable increase in load and that has been reflected in a lot of the development that you see around the State and in the Hobart area around the Hobart airport. The fairly substantial growth in that area is reflected in the overall numbers. We have been looking at a medium-term growth of total around the average we have been seeing, about 2.5 per cent. There have been some areas

where we are projecting the growth over the next five years as being between 4 per cent and 6 per cent. A lot of the growth that we see is latent growth that then translates into actual activity, so we probably will not see the outcomes of the impact of the global financial crisis for another couple of years in our numbers. The short answer is that it is 2.5 per cent on average and in some parts of the State it is around 4 per cent to 6 per cent.

CHAIR - What about new connections in this last year and how do they compare with other years?

Dr DAVIS - I do not have the connections number in front of me but I am sure it is in the annual report. Connections numbers have been very high over the last five years and the last 12 months was a continuation of the trend.

CHAIR - Forecasts for this year?

Dr DAVIS - On the basis of the information that Access Economics was able to provide us when we were doing the forecasts, we projected about the same level that we have seen in the past. To date, we are exceeding the levels we saw last year and have seen. Our projection to date we thought relatively optimistic but we have been exceeding that in the numbers. What we start seeing over the next six months will be interesting.

Mr DEVEREAUX - To put an actual number of that, Chair, in 2006-07 the total number of customer installations was 263 251. It jumped up by another 2 500, so as at the end of 30 June the customer numbers had risen to 265 812. It is steady growth.

CHAIR - And in terms of new subdivisions?

[4.30 p.m.]

Mr DEVEREAUX - Mixed messages. In some municipalities we are seeing continuing growth at the same sort of level that we have seen. Kingborough remains very strong, as one example. Huon and Brighton areas that are in my locale are very strong. The feedback that we get from some municipalities and some of the design engineers is that the growth that we are seeing is continuing and in other cases they are reporting that it has dried up completely. So it is very much a local issue.

Mr MARTIN - On the competition issue, have you a forward projection of how many customers you expect to lose if the final tranche happens?

Dr DAVIS - We make some assumptions about customer loss but, again, they are commercial-in-confidence because we do not want to let the competitors know that we are assuming a loss of a particular number. I think this is one of the reasons why we work so hard in the community and with our sponsorships and so on because we want customers when a competitor comes knocking on the door to say, 'No, we're basically happy with Aurora'. The experience interstate is that there has been a substantial churn of customers away from -

Mr MARTIN - There has been?

Dr DAVIS - Yes, incumbent retailers. Recently it was determined that the Victorian market was one of the most competitive in the world. Australians are certainly prepared to make the shift and we factor in some numbers in that respect but we do so allowing for the position of Aurora in

the Tasmanian community, the fact that it is Tasmanian owned. I think there is a degree of ownership our people feel and our customers feel so we would not anticipate the same degree of churn as perhaps some other jurisdictions. But there is data out there that shows that customers will shift and, again, we have to respond to that. We try to retain as many as we can by offering superior service, good quality and so on, but we recognise that we also have to win some from other jurisdictions.

Mr MARTIN - I would have thought Tasmanians were fairly loyal to the Tasmanian brand.

Dr DAVIS - Yes, and that is one of the reasons that our corporate image and our standing in the community is so important to us. We are a major supplier and employer in the State. Our returns to the Tasmanian community in the year just finished amounted to almost \$200 million. If you look at our payroll of \$70 million, contracts awarded of \$90 million, we have a big presence in Tasmania and we need to make sure that we do not sit back on our laurels in the event that full retail competition is introduced. But certainly we make assumptions in our budget that we will not have 100 per cent going forward.

CHAIR - Minister, aside from Nyrstar, who were mentioned before, have you lost any other major industrial customers?

Dr DAVIS - The answer to that question is yes but, again, we would prefer not to name them because they just cease to be customers of Aurora and they become customers of a competitive retail margin. The power has to come from somewhere so Hydro Tasmania is probably still sitting behind them as a supplier, so the loss is of the retail margin only. The customers are still using our distribution network so we will still get the tariff for the use of the network system. Hydro, presumably, still get the energy rates so it is just that retail margin part.

CHAIR - Which retailers are now established in the State and can you tell us who the biggest threat is?

Mr LLEWELLYN - Well -

Dr DAVIS - I think not.

Mr WILKINSON - We know Integral Energy Australia has pulled out, don't we, and they are the ones.

Mr HASKER - Yes. Dr Davis mentioned that earlier that they had surrendered their licence.

Mr WILKINSON - Are you aware of the reason for that? Is that because they could not compete or they did not think it was viable and they wanted to focus elsewhere?

Dr DAVIS - I do not know the answer to that question. However, I suspect that with the turbulence in the New South Wales electricity market as the Government there considers whether to privatise the New South Wales retailers and to put generators and retailers together and chop them all up and do various things, that trying to win half a dozen customers in Tasmania is probably a bit of a distraction for them at the current time.

Mr WILKINSON - Am I right in saying that you would have a competitive edge because, as you said with Nyrstar, they had to use your systems to get the energy to Nyrstar -

Mr HASKER - And the Transend systems.

Mr WILKINSON - Yes. It would seem to me, without knowing the workings of the business closely, Aurora would always have a competitive edge because they already have the system set up.

Dr DAVIS - That does not really give us a competitive edge -

Mr WILKINSON - Nodding saying no.

Dr DAVIS - That is right. The network businesses are effectively natural monopolies and they are therefore heavily regulated. The Aurora network, in the most recent pricing determination, was subject to the deliberations of the Tasmanian Electricity Regulator and the Transend Transmission Network has been subject to the deliberations of the Australian Energy Regulator. So the network businesses are effectively a regulated monopoly and then the competition happens at each end of the wires. It happens at the retail end and it happens at the wholesale generation end.

We probably get some little benefit in the sense that people have heard of Aurora, because we own the wires, so that might help. But in terms of commercial issues, no, there is no opportunity to cross-subsidise or leverage the ownership of the wires. We follow very strict ring-fencing protocols whereby the accounts of the network business are separately compiled, accounts of the retail business are separately compiled, there is no transfer of information between the general manager in network who is sitting next to me and the general manager in retail in respect of what retailers have been talking to the network, what customers might be coming up. Therefore there is no competitive advantage. It effectively means we have two separate businesses and they are quite different in nature. One is an engineering, asset, maintenance and construction business, which is regulated, and the other one is a competitive energy business. You will even find we recruit different types of people to run them and to work in them.

CHAIR - While on this general theme, have you ever contemplated acquiring any of your competitors on the mainland so you can expand your mainland business?

Mr LLEWELLYN - Obviously there are commercial opportunities that come up from time to time and it would be irresponsible of Aurora or any of the other businesses not to look at those opportunities if they were available.

CHAIR - Have you acquired any at this stage?

Mr HASKER - No.

CHAIR - As the minister said, if the commercial opportunity came up and was right you would consider it.

Dr DAVIS - The issue is, as we mentioned earlier, that economies of scale and scope are important for Tasmanian businesses. We did in fact note that Hydro Tasmania have in fact taken that action by purchasing Momentum Energy in Victoria, but at this time Aurora has not.

That is not say we do not keep our eye open for opportunities. Often those small retailers come up for sale, and it is certainly a very quick way of acquiring a customer base, but we would be very prudent in any such consideration because you need to make sure that the contracts that the other retailer holds are robust and you would want to make sure that the IT systems integrate with ours and there is cultural fit and all that sort of thing. So our activities interstate have actually been under the Aurora brand - under our own name - using our own marketing and sales people based in Tasmania, largely, and in the case of South Australia, leveraging off our expertise in pay-as-you-go technology.

So we have done quite well as Aurora, in our own right, and we have not been actively looking to buy anything but we would not rule it out.

CHAIR - What about any strategic alliances with your competitors - not competitors but other authorities - have you entered into any of those?

Dr DAVIS - We have not entered into any strategic alliances at this time but, again, it is very possible and we need to be cognisant of the way the National Electricity Market has evolved. There has been a tremendous amount of consolidation and rearrangement since the NEM commenced and what we have seen is the emergence of a tendency towards combinations of generators and retailers. If it is a really hot day and the generator is making a lot of money, that means the retailer is not making a lot of money. So, putting them together, it tends to smooth out that volatility. We have seen a number of generators purchase retailers, we have seen a number of retailers purchase generators and we have seen joint ventures happening.

That is the way the market is going and we need to be able to do that and, to some degree within the Tasmanian region of the NEM, the acquisition of the Tamar Valley power station is absolutely consistent with that national trend to have retailers with some generation. The Hydro's purchase of Momentum Energy in Victoria is absolutely consistent with a trend of generators buying some retail. But, as of today, no, we have not entered into a joint venture nor have we bought a retailer.

Mr WILKINSON - What growths? We are talking about people coming into Tasmania and being part of competition and you win some, you lose some. But are you winning any interstate and what are your forecasts for business interstate in the near future?

Dr DAVIS - I think, as Mr Adams indicated earlier, something like 10 per cent of our revenue now comes from interstate. That is tending to grow quite strongly but clearly we need to be cautious to make sure that it is profitable growth and the issue of having access to generation interstate is very important.

We note that Hydro Tasmania, for instance, has a wind farm in South Australia which is of interest to us as a source of energy. However, the day we would need the energy, which would be a very hot day in Adelaide when everyone turns on their air conditioner, would probably be the day it is calm. You probably need something that is a little more reliable than a wind farm. If you think about how small Tasmania is and how big the population centres are on the mainland, we believe there is an opportunity for Aurora to have substantial profitable growth and still keep underneath the radar of the large interstate players.

Mr WILKINSON - Hydro has done extremely well in relation to expertise over many years and that expertise is transported all over the world. Is that the same with Aurora?

Mr LLEWELLYN - To some extent. We are not scrutinising Hydro here today, but I have mentioned the Hydro on one or two occasions. Their consulting arm has grown considerably over recent years and they have been very successful. A joint venture arrangement with China Light & Power has been a success with lots of wind generation in China in particular. There is one plant in India also. They now have offices in India and involvement in other countries. Certainly Aurora does not consult to the same extent but staff from Aurora have been involved in some discussion in Thailand and in a number of other areas. There is a lesser degree but certainly an involvement.

Dr DAVIS - Perhaps if I could add to that, Minister, I think that Mr Wilkinson's earlier questions were about focus and diversity. I am sure that Aurora's people could win work overseas and interstate but even in Tasmania we have really tightened our focus. We have a large group of expert staff who do construction of transmission assets. We do not own transmission assets so that work was all won in competition with major players and a key customer of ours is Transend. We have operators and transmission construction expertise within Aurora and we continue to provide that service to Transend, which was won on a competitive basis.

I think that it is fair to say that we are also retraining a number of our transmission and externally-focussed operators to deliver on the core business program of our distribution network because it is not much good having people running off around the country building stuff for other people when we have a shortage of manpower in Tasmania to deliver on our own program. I think that the calibre and the quality of the Aurora staff is outstanding but they deliver largely in Tasmania rather than in other jurisdictions.

Mr MARTIN - You had an enterprise bargaining agreement during the year that has been completed, I think.

Dr DAVIS - That is correct.

Mr MARTIN - Was the outcome of that pleasing for you?

Dr DAVIS - Yes, it was. We had a fairly lengthy process to establish a new enterprise agreement for Aurora. It took a while to come to an agreement with the unions, but once we did the agreement was put out to vote and received 90 per cent support from our staff. It was recently voted on and approved and has come into effect. We have backdated the pay rises to May this year.

Mr MARTIN - So it is a good outcome.

Dr DAVIS - Yes.

Mr MARTIN - I think during the process there was an attempt to introduce performance-based; pay is that correct?

Dr DAVIS - That is correct.

Mr MARTIN - Did that not go anywhere?

[4.45 p.m.]

Dr DAVIS - No, it did not. It was a very interesting and challenging exercise because our concept with performance-based pay was that we would introduce it into part of the organisation

effectively on a trial basis, and our large field-based work force would not be offered performance-based pay. Unfortunately, the field-based work force decided to take industrial action on the prospect of performance-based pay even though it was not included in the offer to them. What that did was cause us to re-evaluate the organisation's readiness for performance-based pay, and as a result of listening to our staff on how they felt about it, we elected to remove performance-based pay from the negotiation.

Mr MARTIN - What is the likelihood of the attempt to introduce that in the future?

Dr DAVIS - I think we learned a lot from this particular process, and one of the things that Aurora will do is consult very closely with its staff on any changes that might be brought into a future agreement. We now have three years to really work with our staff and work out what is needed to make the organisation work effectively. I think it is fair to say that our retail business is operating in quite a competitive market, a national market where performance-based pay is common, but in the distribution business, the line workers and so on, is far less common. I think the exercise we went through was a learning exercise, to some degree, and we will be very cautious about taking it forward, but it would be very much in consultation with our staff. I cannot make any comment at this time. We have only just completed our last enterprise agreement, and I think the team would like to take a deep breath before we start working on the next one.

Mr MARTIN - Yes, I understand that. I think you have done a survey on employee engagement levels that saw a drop.

Dr DAVIS - Yes, that is correct.

Mr MARTIN - Is that a concern to you, and how much was the drop?

Dr DAVIS - We have used an external-based organisation to do our employee engagement surveys, it is called Hewitt Associates. Hewitt effectively benchmark organisations right around the country and the world to see what the performance is. For the last two years Aurora has operated, in terms of employee engagement, in what is known as the best employer zone, so we are in the area which Hewitt regard as best practice. This year we dropped just below that to an employee engagement of 61 per cent. Of course it depends where you start from. If you have come from a low base, 61 per cent looks pretty good, and means that nearly two-thirds of your employees are fully engaged, but if you have come from a higher place, as we have, then you think perhaps we are not doing quite so well.

Mr MARTIN - Was that across the organisation, or in segments?

Dr DAVIS - That number is for the whole organisation, so there are pockets. There are some parts of the organisation where employee engagement is over 90 per cent, and there are some parts where it is at 40 per cent or 45 per cent. The issue is addressing what are the reasons for the lower scores, and equivalently what are the reasons for the high scores and trying to improve all of those things. I think to some degree that survey took place during the middle of the enterprise agreement negotiation, when we had industrial action and such things going on. I am quite confident that -

Mr MARTIN - The performance-based pay.

Dr DAVIS - Yes, that is right. There was talk about not doing the survey because we might get a low score, but our reaction was to let us be very open to that. Am I concerned about it? Yes, I am disappointed that it has dropped a little, but I think it is still very stable, very sound. We have a number of initiatives in place to try to motivate and encourage our staff, because with the large work program that we have, and with competition in our retail business, we need our staff to be very focused and enthusiastic about working for Aurora. I believe they are, but we certainly will not be sitting on our hands; there are further things that we need to do to see if we can lift ourselves back into the best employer zone.

Mr MARTIN - Okay, that is good. Is it true that a lot of the negotiations for the EBA was carried out by lawyers?

Dr DAVIS - No, I do not believe that is true. Lawyers are required to write up the agreement at the end of the day, but the negotiations were carried out by our people working with the union representatives. In fact, we had delegates within our organisation who are our own staff members who actually mount the case on behalf of the employees.

Mr LLEWELLYN - Someone has been giving you a bit of a line, Terry.

Mr MARTIN - We do meet the stakeholders.

Dr DAVIS - I think one of the really important achievements of this particular enterprise agreement was that we talked earlier about the diversity of Aurora. When we started into this process it was quite confusing to understand what people's entitlements were because I think there were about five or six separate industrial agreements to which one needed to refer to get a complete picture. So, one of the things that we worked collaboratively with the unions on this time was, in fact, producing a single agreement for all of Aurora with all of the workplace arrangements in the one document. Clearly, that required legal assistance to make sure that the document was robust and, at the end of the process, all the unions and Aurora signed off on it. We are quite pleased that our employees can now go to this one agreement and find out what are their entitlements for parental leave, what are their entitlements for sick leave, what are their entitlements to redundancy and all those things.

Mr MARTIN - My final question on this: are you worried about the skill shortage in the professional area? It is almost a statewide and it could even be an Australia-wide thing that older engineers tend to stay put and younger engineers move on. Is that an issue you have and have you any strategies to try to address it?

Dr DAVIS - I believe the general manager, network, has been conducting interviews for senior engineers in the last 24 hours, so I might hand it to him. I am sure there is some very fresh news.

Mr DEVEREAUX - That is certainly something that we are focused on and I think it is fair to say that our strategy has probably been a little different to other organisations in that we have seen the gap since 1990. I think most people would be well aware of the fact that there have been continual cost pressures in our industry. I have less than fond memories of a 20 per cent cut in 1991 and then an annual 4 per cent cut for the following four years and then a 25 per cent cut at our first regulatory determination outcome which, in my view, left the business well and truly underdone on the engineering capability that it required to simply run the business.

About four years ago we made an active decision to start rebuilding that engineering skill set and a technical skill set and, at the same time, we also recognised that we needed a significant increase in the capability of our field work force. So we were tackling those two broader issues at the same time.

Our strategy, however, was essentially to build rather than buy and Dr Davis referred to the very large apprenticeship program that we commenced about four years ago now. At the same time we commenced a process to get a much greater draw in of young engineers and we basically matched up our young engineers whom we had recruited through the university process, through the graduate process, with our older engineers and formed a mentoring program and basically re-established the base, and we are continuing to do that. I think, currently, we have about eight graduates. We have three coming into the business who have already come in this year and a couple more to come in over the next few months.

That is our fundamental approach, which is in line with the approach we are taking in developing our field force.

Mr MARTIN - Is it too soon to say whether that is working well?

Mr DEVEREAUX - My assessment is that it is working extremely well. We have a very committed and talented group of young people and there has been mention made earlier today about the reputation that Aurora has and its ability to attract and retain people. That is something that I am observing with our young graduates. It is a little bit of a trend at the moment. A lot of those young people are starting families and growing fairly strong roots in the State, which is very encouraging and gives us confidence that they will be around into the future.

At the same time, we have just been recruiting for a senior engineering role. In the marketplace that we face at the moment, with that great dearth of talent that is out there and available, we have been very encouraged by the response and we will be looking to make an appointment in the next few weeks. We are very comfortable with the space that we are in.

CHAIR - I would like to follow on from Terry. As in a lot of professions, younger people tend to be much more mobile these days and young engineers, I presume, are the same. I think it was put to us that maybe you are retaining some of your older engineers because they are in the fortunate position of being in the old super scheme - Retirement Benefits Scheme - so they are hanging on there, whereas the younger engineers tend to want to move on. There is not that carrot, if you like.

Mr DEVEREAUX - I think that is a fair observation, which comes back to very much focusing on what the organisation has to offer. We have just recruited a new specialist recruitment manager for the business, whom I met with today. We have been talking about the kinds of strategies that we need to have in place to recruit and retain our people.

CHAIR - Complaints increased from 113 to 227. Is there any specific reason for that?

Mr WILKINSON - Only against the minister, I think.

Mr LLEWELLYN - We had one person.

Dr DAVIS - Are you referring to aggregate complaints or specific network or retail complaints?

CHAIR - Just complaints per se.

Dr DAVIS - I think, without referring to the detail of the notes, the reality is that we saw an increase in the number of complaints in relation to billing, particularly with the impact of the higher prices coming through. We had many more requests for special meter reads, where people thought that their bills were too high. This year we put the Ombudsman's phone number on the bills to encourage customers who are unhappy with our performance to give them very clear access to an independent party they could talk to. I think there was some reaction in terms of increased costs leading to more complaints.

Mr HASKER - I am not aware of any specific cause that has created that trend.

CHAIR - I have had a couple of questions from electrical contractors. EWRs - and I have forgotten what it stands for -

Dr DAVIS - Electrical work requests.

CHAIR - That is right. Sometimes contractors have lodged them and they seem to get lost in the system, which causes some frustration. Do you have a method of tracking those?

Dr DAVIS - Yes, we do. The one we currently have is not something that we are entirely satisfied with. We are currently going through a process with our electrical contracts and reviewing a number of the processes. We are doing that jointly with our electrical contractors. We are also revising the systems we have on the very basis of tracking. I would confess that I am not entirely convinced that the problems are necessarily all at Aurora's end, but at the moment we do not have any means of providing an adequate response in some circumstances to talk about implementing today. There is one whereby at each step of the process there will be an advice that goes to people and if you do not get the advice then you know that there is a problem to follow up at that point rather than leaving it until somewhere down the track.

Mr DEVEREAUX - I think the other thing we should comment on is that, because of the scale of the capital program that we built last year, a huge amount of pressure is on to get all the work done in terms of the Regulator's expectations in improving the system and the \$25 million-odd worth of customer requests that came through. Quite often we find that customers put in their electrical work request and they have just built a new house or a new shop and they want to be connected tomorrow. We say, 'You have to go in the queue and it is going to take six weeks'. They say, 'Why is it taking six weeks? Where is your customer focus?'. The reality is a full program of work and nearly \$600 million worth of work - the work programs are often organised well in advance. When these electrical work requests come in - they are what we call 'customer-generated work' - clearly they are a priority but you get to them in a particular order. Occasionally they will take longer than the customers would like and that tends to generate some requests. I think the other issue is there is always that boundary between the Aurora assets and what the contractors are authorised to work on. We do have authorised contractors who can put meters on and so on but, at the end of the day, the connection of electrical supply, which is called a tee-up - and I thought it was a technical term but it is actually a meeting. A tee-up is a meeting involving the Aurora people and the electrical contractors to -

CHAIR - No, I appreciate that. The long and the short of it is yes, you are looking at some of those processes. I have had a couple of contractors approach me and I will encapsulate it because it is of a technical nature. Basically what it talks about is a lot of large dairies and irrigation systems with their electronic automation systems. They have had problems with them for one reason and the other, the contractors have been out and checked them all out but the contractors are saying -

Mr LLEWELLYN - They need to install uninterrupted power supplies. That is what they need to install, and Aurora could give them some direction on that.

CHAIR - Yes, but what I was about to say, though, was that the contractors think that there are deviations in the power supply which are causing some of these problems and they think that the system basically is overloaded in some areas. Have you any comment on that?

Dr DAVIS - We do make payments occasionally for outages or over-voltage issues.

Mr DEVEREAUX - This is the issue of variations in our voltage, which comes under the banner of power quality.

CHAIR - Is that called bad power or some term?

Mr DEVEREAUX - Yes, and every electrical system suffers from variations in voltage. The longer the feeder, the more impact there is, and therefore it is most felt in rural areas. We do monitor very closely the loads on our feeders and all of our feeders are operating well within the specified load requirements, which is not to say that we do not have quality issues in some parts. Part of our targeted reliability improvement program is actually directed very much at the sort of communities that we are talking about in the more rural areas so there is an ongoing program, which I have not time to talk about now, which is aimed at addressing those communities over the next four years.

CHAIR - I am pleased to hear that because with some of these rural areas they have some very sophisticated -

Mr LLEWELLYN - Seriously, in the remote rural areas wherever so infrequently there might be a very short break in power supply and so on, that does have an effect on computer-based equipment, or it can do if memory systems within those controllers are not restored or they may be a little aged in technology or whatever. The way around it for those customers is to install an interrupted power supply.

CHAIR - What I am saying is a lot of this is new, high-tech equipment. This is stuff that has just been put in and they are having these breakdowns and the contractor goes out and goes right through the whole system and then still finds -

Dr DAVIS - Dairying is an issue and it is very famous when you have a power quality problem and all the cups drop off the cows and milk goes everywhere -

CHAIR - And you know what happens when the cups drop off. The cows get agitated and they tend to add to the methane.

Mr WILKINSON - This is a climate change issue.

Mr LLEWELLYN - A way that Aurora can actually contribute to carbon reduction is to make sure that the cups do not fall off the cows.

CHAIR - Without becoming frivolous and vexatious, I think.

Mr HASKER - What would be the cost of some integration to the system - it is the same with my home computer - to allow such an installation to tend to avoid those problems?

Mr DEVEREAUX - I think the minister is right on the mark in talking about the balance that we have to strike between the customers and Aurora and the network, about where is the most cost-effective place to put the mechanisms by which any fluctuations can be addressed. In some cases it is vastly cheaper and more economically efficient to have that at the customer end. In some cases there are some things that we can do on the network so it is a very localised issue but we are spending a lot of money in actually addressing those particular rural areas.

CHAIR - Minister, on behalf of the committee I would like to thank you very much and Mr Hasker and Dr Davis and all your other advisers.

Mr LLEWELLYN - It has been our very great pleasure, Chairman.

The committee adjourned at 5.05 p.m.