2008

Legislative Council

Government Businesses Scrutiny Committee 'A' 2007

Report with Minutes of Proceedings

Members of the Committee:

Hon Ruth Forrest MLC
Hon Greg Hall MLC (Chair)
Hon Paul Harriss MLC
Hon Terry Martin MLC
Hon Jim Wilkinson MLC

Legislative Council
Government Businesses Scrutiny Committee 'A'

MINUTES

Tuesday 4 December 2007

Held in Committee Room no. 2, Parliament House, Hobart, at 8:45am.

Members Present: Mr Hall (Chair), Mr Harriss, Mr Wilkinson, and Mr Martin.

Member granted leave of absence: Ms Forrest.

Witnesses took their place at 9:00am

FORESTRY TASMANIA

The following witnesses appeared before the Committee:

Hon. Paul Lennon MHA, Minister for Economic Development and Resources
Mr Sean Terry, Senior Advisor
Mr Adrian Kloeden, Chairman
Mr Bob Gordon, Managing Director
Mr Ken Jeffreys, General Manager Corporate Relations
Dr Hans Drielsma, Executive General Manager
Mrs Penny Egan, Chief Financial Officer

The Committee notes the following evidence in relation to Forestry Tasmania:

Overall Performance

- The 2006-07 year was positive for Forestry Tasmania and the forest industry generally. Forestry Tasmania has continued to work towards the objectives of the Tasmanian Community Forest Agreement (TCFA).

Financial Position

- Forestry Tasmania's financial position is "robust", though 2006-07 was a "tough" trading year.[1] Nonetheless, a profit was maintained and operating and capital investment objectives were fulfilled. Forestry Tasmania has recommended that no dividend be paid for 2006-07. Performance remains strong compared to counterpart interstate companies. While statutory profit was $29 million, actual profit was $589,000, largely attributable to reduced sales revenue. The adjustment is due to a revaluation and a superannuation liability.

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1 Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Forestry Tasmania), 4 December 2007, p.2

- A dividend is unlikely for 2007-08, though profits are predicted to increase over the long-term. Estimated gross sales revenue for 2007-08 is $165.8 million.

- There has been some rise in expenses, though this is due almost entirely to harvesting costs rather than routine operations.

Uncertain International Markets; Diversification of Investments

- A cyclical downturn in international markets has reduced demand for export pulpwood. Currency movements, high freight costs, and critical public commentary have also contributed.

- Investment in downstream processing is a strategy intended to reduce reliance on commodity markets and diversify Forestry Tasmania's investments. Forestry Tasmania is exposed to trade flows in the market – currently at a cyclical low – and consequently there is a desire to pursue downstream processing opportunities. The Gunns' pulp mill will require 1.5 million tonnes of product, which is projected to move profits up.

- Forestry Tasmania is at the "beck and call" of the Japanese market.[2] The market situation has a multiplier effect through the forest industry in Tasmania. Forestry Tasmania has strategies in place to mitigate the risk of losing the Japanese market.

Social Projects

- Forestry Tasmania spends about $5 million per year providing social and environmental benefits such as tracks and trails, access roads, research, education, and fire management.

- The value of managed capital assets related to non-forest activities is $1.309 million, comprising of recreational facilities ($782,000) and fire towers ($527,000).

Difficult Fire Season

- In 2006-07, fires consumed 74,000 hectares of forest; Forestry Tasmania firefighters were involved in fighting these fires. About $50 million of standing timber and future production was lost, along with bridges and other physical assets.

- Forestry Tasmania, Parks and Wildlife, and the Fire Service are cooperatively working on a fuel reduction-burning programme. In 2006-07, the three entities agreed to a protocol, with Cabinet approval,

[2] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Forestry Tasmania), 4 December 2007, p.10

for fuel level management. The fire season was "expensive and difficult".[3]

No Sale of Forestry Tasmania

- Members asked if the State Government has considered the sale of Forestry Tasmania. The Minister said that it had not been considered and would not be considered as part of any agenda.

TCFA Revenue

- $22.3 million revenue received through the TCFA is received by Forestry Tasmania as a grant. Due to accounting standards, the balance sheet does not clearly show how or where this revenue has been held or expended. Some TCFA grant revenue is held in isolation for a period of time, appearing as an expense only after it is progressively spent. Grants may be required to be spent for certain seasonal purposes that are not aligned to financial years.

Public Information Management

- Forestry Tasmania is subjected to apparent anti-forestry propaganda, which can be "very hard" to combat.[4] Information is put forward in response in an attempt to correct the record.

- Members suggested that perhaps Forestry Tasmania was not winning the public debate. Forestry Tasmania representatives explained that the standard of its practices have been independently verified and that it tries to be open and transparent. The media is sometimes not prepared to give coverage to findings without newsworthiness. The public would reach informed conclusions when presented with verifiable information. Forestry Tasmania manages forests in cycles of hundreds of years; some critics have a short-term outlook.

Proceedings were suspended at 10:30am and resumed at 10:45am

Tourism Ventures

- The Dismal Swamp tourist venture lost around $200,000 in 2006-07. The Tahune AirWalk performed better, and a flying-fox concept at Hollybank is planned to open on December 15 2007. The Minister advised that no loss is predicted for tourism ventures in 2007-08.

- The Maydena Hauler project will not be possible due to unforeseen cost and engineering challenges; a new concept is being planned.

[3] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Forestry Tasmania), 4 December 2007, p.43

[4] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Forestry Tasmania), 4 December 2007, p.12

Forestry Tasmania could become a "hub" for independent tourist operators.[5]

- There is consideration to develop the tourist route known as the Tarkine Drive to create access to the Tarkine region.

Staff and Contractor Issues

- Staff costs are being maintained. Some restructuring is taking place as staff resign or retire. Forestry Tasmania is appointing trainees and encouraging experienced former employees to return on a casual basis and as fire controllers

- Contractor costs have been minimal and have had little effect on margins.

Research and Development

- The Federal Government imposes a research and development levy on the forest industry that is used to fund research. Revenue raised through the levy is matched by the Commonwealth, bringing the total amount available Australia-wide to between $12 and $14 million.

- Forestry Tasmania is renowned for its research. Its Hardwood Forestry Cooperative Research Centre spends $3 million on research each year. Intellectual property is managed through complex rules and arrangements. Forestry Tasmania is "looking" to sell its expertise.[6]

Taswood Growers

- Forestry Tasmania has considered selling its share in the Taswood Growers venture; but noted that reviewing ownership of assets and considering options is an ongoing process. Adequacy of the returns are being analysed to allow evaluation of the issue. The joint venture has not provided the level of return expected, though a new contractual arrangement is pending.

Pulp Mill Wood Supply Agreement and Arrangements

- There is no intention to use old-growth forest as part of the supply for the pulp mill. A classification process will ensure that supply will be sourced from non – old-growth coupes. This has not been included as part of the supply agreement as the matter is deemed operational.

- Modelling has been undertaken to ensure that the 1.5 million tonnes of log supply can be met. Meeting this level of supply will not require any intensification of forest use. Any additional supply above 1.5 million

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[5] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Forestry Tasmania), 4 December 2007, p.26

[6] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Forestry Tasmania), 4 December 2007, p.24

tonnes will come from private plantations; Forestry Tasmania has no large-scale plans to acquire land for establishing plantations.

- The Heads of Agreement was due to be finalised in mid-December 2007. Depending on the views of the Ombudsman, this may be publicly released.

Country Sawmillers

- The changing nature and availability of wood resource has led to issues for country sawmillers as more conservation reserves have been created. Funds have been provided to the industry for re-tooling.

Superannuation Liability

- Forestry Tasmania has an unfunded superannuation liability of around $15 million. Forestry Tasmania is uncertain whether this is predicted to change, citing market "vagaries".[7] Currently, superannuation commitments are funded as they arise.

Policy Framework and Policy Formulation

- All States of Australia fall in under a broad framework. Tasmania's forest policy and framework have been developed under the RFA. This provides a totally integrated forest management system.

- Forestry Tasmania does not determine policies and regulation. However, its research and participation in the policy making process is a factor influencing policy development.

Harvesting Methodology

- Harvesting methods are arranged according to a balance of cost and conservation. Alternatives to clearfelling are being continuously evaluated. Some clearfelling will continue for the foreseeable future. Forestry Tasmania seeks to meet high environmental standards in line with community and market expectations.

Ta Ann

- Ta Ann has opened a rotary peel veneer mill in the south of the State and has committed to a second mill at Smithton.

- Forestry Tasmania is progressively withdrawing from its shareholding in Ta Ann, a process that will be complete by 2010.

[7] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Forestry Tasmania), 4 December 2007, p.35

Consulting and Professional Services

- In 2006-07, $2.467 million was expended on consultancies and professional services, for purposes including legal services, auditing services, taxation services, various consultancies, and licence fees.

Tabled Documents:

1. Pulp Mill – Wood Supply Agreement PowerPoint presentation slides.
2. Sustainable High Quality Eucalypt Sawlog Supply from Tasmanian Forests – Review No 3.

OBSERVATIONS/CONCLUSIONS

1. Forestry Tasmania has experienced a challenging year and reduction in profits as a result of many factors including a downturn in export pulpwood market associated with currency fluctuations and increased production and fire management costs. Significant assets were also lost to fire during a very difficult fire season. Consequently Forestry Tasmania has not paid any dividends in the 2006/07 financial year, nor is it expected in the 2007/08 financial year.

2. The forest industry is reliant on the Japanese market and continues to face challenges in addressing the 'anti-forestry' voices in the public and media.

3. Current tourism ventures of Dismal Swamp, Scottsdale Eco Centre, and Tahune Airwalk, returned a small overall profit.

4. Forestry Tasmania tourism ventures continued to expand with the Hollybank project and consideration of a 'Tarkine Drive', although the Maydena Hauler project has been abandoned.

5. The Government is not contemplating the sale of Forestry Tasmania.

6. Forestry Tasmania maintains that no old growth forest will be harvested for the proposed pulp mill and that the required level of supply will not result in any intensification of forestry use. Wood supplies in excess of $1.5 million tons will come from private plantations.

7. The establishment of more conservation reserves has caused supply problems for country sawmillers.

8. Forestry Tasmania spends over $3 million annually on research and development.

9. Forestry practices in Tasmania are independently verified.

10. Forestry Tasmania is reassessing its future involvement in the Taswood Growers Joint Venture.

11. Forestry Tasmania is constantly evaluating its harvesting techniques. Some clearfelling will continue for the foreseeable future.

12. Forestry Tasmania is progressively withdrawing from its shareholding with Ta Ann Tasmania. Ta Ann operates a rotary veneer mill in the Huon area, and another is committed for Smithton.

The Committee suspended at 12:01pm

The Committee resumed at 1:01pm

HYDRO TASMANIA

The following witnesses appeared before the Committee:

Hon David Llewellyn MHA, Minister for Energy
Mr Nick Wright, Advisor
Mr Graham Wilson, Advisor
Mr David Crean, Chairman
Mr Vince Hawksworth, Chief Executive Officer
Mr Lance Balcombe, General Manager Strategy and Finance

The Committee notes the following evidence in relation to Hydro Tasmania:

Overall Performance

- The 2006-07 year has been "very challenging" for Hydro.[8] Water Inflows were the lowest since 1967 with rainfall 70% below expected levels. While power restrictions were avoided, additional electricity was produced at the gas-fired Bell Bay Power Station and imported through Basslink, at a cost of $100 million.

Profit and Cash Flows

- An after-tax profit of $79.4 million was recorded for 2006-07. Cash flow from operations was $37.4 million, down from $140 million in 2005-06. Hydro will not pay a dividend in 2007-08. Under normal environmental conditions, Hydro would have had strong profitability. Hydro predicts its operating cash to build up to $150 million by 2012.

- In response to questions relating to Hydro's financial position, Hydro contended that its balance sheet is not an immediate concern. Rather, its present strategy has been to build up assets.

Debt

- Debt levels are projected to be at around $1.1 billion at the end of June 2008. Hydro presently has $175 million undrawn facilities. Members asked if Hydro had exceeded a borrowing limit set by Tascorp. Hydro representatives conceded that a limit of $1.08 billion has been exceeded by $20 million.

- The desirable debt-to-equity position is a ratio of 40:60; currently the ratio is 45:55.

[8] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Hydro Tasmania), 4 December 2007, p.2

- Interest cover ratio (how many times cash flow covers interest payments) is currently at 1.8. This includes interest on liability to the RBF (Retirement Benefits Fund), which if deducted produces a ratio of around 2.4.

- Ernst & Young have been appointed to conduct due diligence on the Hydro and Transend businesses regarding an equity injection to Hydro, including the $50 million for Roaring 40s, totalling $300 million. The Ernst & Young report is intended to provide a transparent process and independent assessment. At this time, the report has not been released.

Capital Expenditure and Maintenance

- Capital expenditure and maintenance has been a focus with expenditure in the range of $60 to $70 million per annum. This is more than double the levels of five years ago.

- Some upgrades and remedial work is being carried out in response to a pipeline pressure pulsation at Poatina to add additional protection to plant machinery. Engineers advised that this incident could not have been predicted. A repeat of the incident is "not likely".[9]

- If major equipment failure occurred, Hydro advised that this would not compromise its financial capacity. Financial exposure is limited to $5 million; with major failures covered by insurance.

- Hydro has a risk management framework that identifies the safety of people, safety of plant equipment, and production as priorities (in that order).

Below-Average Rainfall; Production and Import Alternatives

- Average rainfall in 2006-07 was the second lowest on record, preceded by 10 consecutive years of below-average rainfall. Rainfall provided for only 6,600 gigawatt hours of electricity, though average demand in Tasmania is for 10,000 gigawatt hours. The shortfall of around 3,000 gigawatt hours was provided through:

  --Bell Bay production – 936 gigawatt hours
  --Basslink net imports – 1,374 gigawatt hours
  --Existing storage – 1,000 gigawatt hours

- Hydro's current situation is not the fault of the government; if the ongoing rainfall shortfall had been predicted, possibly "other" decisions

[9] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Hydro Tasmania), 4 December 2007, p.29

would have been made in retrospect.[10] Basslink averted the need for severe power restrictions in Tasmania.

- Electricity production and rainfall yield over the last five years is shown in Figure 1.

Figure 1[11]

Financial Year	Electricity Production (Gigawatt hours)	Rainfall Yield (Gigawatt hours)
2002-03	10,435	10,017
2003-04	10,725	10,867
2004-05	10,770	7,345
2005-06	10,351	10,807
2006-07	9,064	6,631

Future Rainfall and Security of Supply

- Aggregate rainfall over the next 30 years is predicted to be similar to that currently experienced. The distribution of rainfall across the seasons is predicted to become more erratic. The University of Tasmania has been engaged to examine climate futures.

- In the event that rainfall does not return to normal and importing power over Basslink is necessary, the predominant issue to Hydro would be financial. It would still be unlikely that power restrictions would be necessary or blackouts would occur. Hydro maintained that security of supply is more robust than for many of the mainland States. Basslink has ensured power supply certainty with customer confidence being maintained.

Basslink

- The ideal situation is to be exporting over Basslink. Business is about having higher rainfall in Tasmania at a time when prices are high interstate. In 2006-07, 1,900 gigawatt hours was imported and 600 gigawatt hours was exported, the "worst" export-import dynamic that could be envisaged, though with average rainfall this could be reversed.[12]

- Basslink incurred a facility fee in 2006-07 of $93.6 million. This facility fee will vary from year to year from $85 million to $105 million. The total cost including the facility fee of importing across Basslink, and gas power production was $120 million in total. To generate the equivalent

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10 Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Hydro Tasmania), 4 December 2007, p.5

11 Correspondence dated 30 January 2008 from David Llewellyn MHA, Minister for Energy

12 Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Hydro Tasmania), 4 December 2007, p.15

power that was purchased by Basslink in 2006-07 would have cost $130 million if generated by the Bell Bay gas fired power station.

Trading

- An apparent $132 million loss through derivatives trading appears on the balance sheet due to accounting requirements. What it represents is outstanding balances on contracts at 30 June, but overall there is no cash impact.

- Hydro conducts an asset-based contracts strategy, which means that trading is limited by the capacity of assets to produce energy when contracts "get called".[13] These limits are adjusted according to when assets are taken in and out of service. Shutting down assets must therefore be shrouded in secrecy to ensure competitors cannot make commercial gain. Trading is not necessarily planned according to risk; the aim is to achieve innovation.

Roaring 40s Subsidiary

- Roaring 40s has exceeded expectations, with nine wind farms operational or under construction in Australia, India, and China. Roaring 40s is currently valued at $240 million.

- Roaring 40s is a growth opportunity for Hydro, though the arrangement of its balance sheet following disaggregation, along with the drought and record-low storage levels, has compromised Hydro's ability to fund this investment. Consequently, a request was made to the Tasmanian Government for an equity injection of $50 million.[14] The Roaring 40s opportunity could not have been predicted when disaggregation occurred and debt was apportioned.

Diversifying Interests

- Roaring 40s has diversified the Hydro business. This adds to Hydro's advantage over other power generators to be well positioned to take advantage of emission trading schemes. Geothermal and forest waste bio-energy have been identified as possible sources of future diversification.

Consulting Business

- Hydro Consulting has performed well with 50% of revenue from external business. Hydro is undertaking external consultancy work to areas including Melbourne and Queensland, with expansion into India. Global infrastructure growth has resulted in Hydro's consultancy business being well positioned to take advantage of this situation.

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13 Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Hydro Tasmania), 4 December 2007, p.17

14 See also evidence provided to the Committee by Transend Networks.

Water Storage Levels

- Water storage levels have fallen to their lowest levels in 40 years.

Cloud Seeding

- In 2006-07, 75 cloud seeding flights took place; 32 were successful. Cloud seeding has raised some community concern in the west coast area. In conjunction with the West Coast Council, the socio-economic impacts of cloud seeding are being investigated. It was noted that cloud seeding has taken place in a number of areas in Tasmania, not only Queenstown and Strahan.

Lake Margaret Redevelopment

- Hydro is considering three options for the redevelopment of the Lake Margaret power station – refurbishing the existing upper power station; the development of a new upper power station adjacent to the existing power station; and a combination of refurbishment and developing a new station. A decision is expected within the next two months [from December 2007] and information will be forthcoming, including in relation to the wood stave pipeline.

Water Pipeline

- The concept of piping water to the mainland remains at this stage an "idea" that is being discussed.[15]

New Technology

- Members asked whether new technology was being sought to improve the efficiency of turbines. Hydro representatives said that turbines at Trevallyn and Poatina had been modified to achieve greater efficiency.

Staff Issues

- Staff restructures have occurred in information technology, human resources, and finance and procurement. These restructures are intended to improve performance. A number of restructures have occurred; staff are naturally adverse to change. Some staff have chosen to take redundancies.

- The skills shortage has been an issue of concern for Hydro. Programmes have been initiated with GenTech, TAFE, and the University of Tasmania to create career pathways into Hydro.

- There is an additional problem of long-serving employees nearing retirement. Hydro is prepared to offer part-time or flexible hours, though some staff may choose to retire nonetheless.

[15] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Hydro Tasmania), 4 December 2007, p.21

OBSERVATIONS/CONCLUSIONS

1. Record low rainfalls and consequent low water storages have resulted in a greater reliance on the gas-fired Bell Bay Power Station and Basslink. This has adversely impacted on the profitability of Hydro Tasmania. However, power restrictions have been avoided.

2. Basslink has proved more cost effective than gas fired power generation and has maintained consumer confidence through supply reliability.

3. Hydro Tasmania has diversified its interests and income streams particularly with the development of wind power and the establishment of the Roaring 40s subsidiary. This builds on Hydro's long-standing consultancy business. Other potential sources of diversification have been identified, including geothermal and forest bio-waste energy sources.

4. Hydro Tasmania is well placed to capitalise on an emission trading scheme.

5. Debt levels have risen to around $1.1 billion. Hydro has exceeded a borrowing limit set by Tascorp by $20 million.

6. The Government has agreed to an equity injection of $50 million to improve Hydro's balance sheet.

7. After tax profit of $79.4 million was well down, and Hydro will not pay a dividend in 2007-08.

8. A study of the socio-economic impact of cloud seeding is being conducted in conjunction with the West Coast Council as a result of community concern on the West Coast.

9. Options are being considered for the development of the Lake Margaret Power Station.

10. The shortage of skills continues to be an issue of concern.

The Committee suspended at 3:05pm.

The Committee resumed at 3:20pm.

TRANSEND

The following witnesses appeared before the Committee:

Hon David Llewellyn MHA, Minister for Energy
Mr Nick Wright, Advisor
Mr Graham Wilson, Advisor
Mr John Lord, Chairman
Mr Richard Bevan, Managing Director
Mr Paul Oxley, Company Secretary

The Committee notes the following evidence in relation to Transend Networks Pty Ltd:

Overall Performance

- Transend considers its performance in 2006-07 to have been of a high standard. The company transmitted 11,565 gigawatt hours of electricity. The Minister described Transend's financial position as "sound".[16] Recorded profit was $21 million, a decrease from $37.5 million in 2005-06.

Asset Revaluation

- Assets were re-valued during 2006-07 and are now valued at over $1.129 million, and increase of $330 million from the previous valuation.

Expenditure on Capital Programmes

- Capital programmes have continued, with $71 million expended in 2006-07 and $88 million forecast for 2007-08.

- A "market benefit test" model is applied to consideration of new expenditure proposals.[17] The test evaluates whether the cost of taking certain actions would outweigh the potential benefit to the community.

- Awaiting the necessary local government planning permission to build new assets can be the longest phase of a project.

Regulation

- Transend is a regulated monopoly. It is more than halfway through its present regulatory period (2004-2009). Transend contends that

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16 Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Transend Networks), 4 December 2007, p.2

17 Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Transend Networks), 4 December 2007, p.17

"significant restraints" are imposed on its operations by the energy regulator.[18]

Installation of Protection and Measurement Systems

- A SPS (Special Protection System) has been installed, along with advanced measuring systems, allowing Transend to transmit 20% more energy through its lines than was previously possible.

- Transend advised that the efficiencies gained through implementation of the SPS was a world first.

Sale of Transend

- The Minister stated that the sale of Transend is not being contemplated and that the high performance of Transend is not intended to position the company for sale. The Minister explained that if Transend were to be sold, a referendum on the question would be required.

Forthcoming Request to Transfer $50 million

- Legislation was passed in Parliament to authorise a $50 million transfer from Transend to Hydro. Transend expects to be asked to provide $12.5 million in the near future, and the balance of the $50 million as required.[19] When asked if Transend could supply an equity injection to the Hydro of up to $300 million, Transend advised that this may be possible:

> "The issue of Transend's capacity to borrow to fund further equity withdrawals is a complex one and is currently under review. Matters that need to be taken into account include the current balance sheet structure, Transend's own needs to fund its future operational and capital expenditure plans, the likely outcome of future revenue determinations by the Australian Energy Regulator, and borrowing limits imposed by Tascorp. Transend expects to be providing its shareholders with advice on these matters in due course."[20]

Debt

- Ernst and Young is investigating if Transend could manage a higher debt to equity ratio than its current ratio of 16:84. Transend acknowledged that its balance sheet has the capacity to carry more debt, and also noted that the standard debt-to-equity ratio of transmission companies in Australia is 60:40.

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18 Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Transend Networks), 4 December 2007, p.12

19 Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Transend Networks), 4 December 2007, pp.17-18

20 Correspondence dated 30 January 2008 from Hon David Llewellyn MHA, Minister for Energy

- Transend acknowledged that its debt is likely to rise from $118 million in 2006-07 to about $140 to $150 million by the end of 2008. The Minister was of the view that this is a comfortable level of debt.

- Transend's expenditure over the past decade has been less than anticipated. This has put downward pressure on borrowings.

Dividend Formula

- A dividend is paid to Government based on a formula of retaining 50% of profit and paying out 50%. The Board recommended a dividend payment to Government of $15 million in 2006-07.

National Electricity Market

- Entry to the National Electricity Market (NEM) and the necessary transition has been "very challenging" for Transend.[21] The technical performance of the Tasmanian power system was described as exemplary despite some initial minor problems.

- Costs of entering the NEM for Transend were categorised into those incurred through connecting to Basslink and those incurred as a participant in the market. Basslink's owners paid the connection costs with ongoing costs shared with Transend according to a contractual agreement. Costs associated with participating in the NEM are paid from Transend's regulatory allowance in consultation with the regulatory authority.

Basslink Purchase

- The Minister advised some consideration was given to the purchase of Basslink. After consulting Hydro and Transend and obtaining advice from ABN Amro, the cost of purchase was considered unjustifiable.

Aurora-Transend Man-hours Agreement

- Aurora and Transend have an arrangement contracting Aurora to provide a number of man-hours. This arrangement has recently been adjusted.

Recruitment

- Recruiting skilled workers has been an issue for Transend. A graduate development programme is in place and Transend has developed an association with the University of Tasmania.

West Coast Transmission System

- The status of the west coast transmission system was described as solid and the security of supply for that area rarely has any long-term

[21] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Transend Networks), 4 December 2007, p.13

problems. If technical failures occur in any one part of the system, some measures can be taken to offset instances of technical failures and ensure supply is uninterrupted.

Safety Record

- Transend stated that its safety record is "very strong". However, there has been a small increase in minor incidents.[22] Transend contractors are required to submit safety and environment reports.

- Road safety is a significant safety issue for Transend staff who collectively travel over one million kilometres per year.

Pulp Mill

- Asset development agreements in the George Town area are well advanced in relation to transmission lines that would be required by a pulp mill.

Forward Planning

- Forward strategic planning is underway to broadly assess future market requirements as far ahead as 2040. It was noted that some factors, such as environmental changes, are not within Transend's control. There is a small risk that if demand reduced over time, some assets could become redundant. A surplus of generated power would not be an issue for Transend, but rather for the electricity generator.

Hydro-Transend Telecommunications Negotiations

- Transend and Hydro are presently in discussions about the potential sale of telecommunications systems from Hydro to Transend. This is expected to come to a conclusion within months.

<u>Tabled Documents</u>:

1. Map of Tasmania showing transmission system.
2. Brochure – 'Transend – our mission is transmission'.

<u>OBSERVATIONS/CONCLUSIONS</u>

1. Transend is in a sound financial position, with a very low debt to equity ratio.

2. Transend paid a dividend of $15 million in 2007.

3. Capital expenditure on infrastructure programs continues to increase.

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[22] Legislative Council Government Business Scrutiny Committee 'A' *Hansard* (Transend Networks), 4 December 2007, p.21

4. Transend is in the process of transferring $50 million to Hydro.

5. Transend's debt is likely to expand to approximately $150 million by the end of 2008.

6. The Minister denied any suggestion that a sale of Transend is being contemplated.

7. Entry into the National Electricity Market has been challenging for Transend.

8. The Minister maintained that the purchase of Basslink by Transend could not be justified.

9. The shortage of skills has continued to be an issue of concern for Transend.

General Business:

The Committee requested that the committee secretary provide a draft report for the Committee's consideration in early 2008.

Adjournment:

The Committee adjourned at 5:09pm until a date and time to be fixed by the Chairman.

DATE 17/04/08

CONFIRMED

CHAIR