

**LEGISLATIVE COUNCIL**

**GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A**

**Wednesday 7 December 2011**

**MEMBERS**

Mrs Armitage  
Ms Forrest  
Dr Goodwin  
Mr Hall (Chair)  
Mr Harriss  
Mr Wilkinson

**Hon. Bryan Green**, Minister for Energy and Resources

**Ministerial Office**

**Ms Alison Turner**, Adviser  
**Mr Gary Swain**, Head of Office

**Transend Networks Pty Ltd**

**Mr Don Challen**, Chairman of the Board  
**Mr Peter Clark**, Chief Executive Officer  
**Mr Paul Oxley**, Company Secretary

**The committee resumed at 1.30 p.m.**

**CHAIR** (Mr Hall) - Welcome, Minister. Would you like to make an opening statement?

**Mr GREEN** - Transend has had another successful year in 2010-11. The company's financial and service performance for the year was again strong. Transend produced a profit-before-tax result of \$67 million in 2010-11 which was driven by a continued focus on cost control combined with an increase in revenue. Returns to government were healthy, with the company to return a dividend of \$28.6 million for 2010-11. Transend is in a sound financial position and I am

confident that it is capable of meeting the shareholders' dividend and return on equity payment expectations until the end of the current regulatory period.

Transend's overall service performance was reliable during the past calendar year. On four out of five key measures of service Transend met or exceeded its annual targets. Transend again had a significant capital program during the year, with some \$130 million of expenditure on a variety of projects. The purpose of this investment was to improve the reliability and security of the power supply and to build extra capacity to meet increasing demand. The highlight of the capital program was the on-time completion of the Waddamana to Lindisfarne project in April 2011, which secures the supply of electricity to southern Tasmania.

I mentioned earlier today that the expert panel is set to publish a draft report next week. A lot of time and effort has gone into this to date from all the electricity businesses. I would like to again put on the record that the Government will carefully and thoroughly consider the panel's work when it becomes available and we will be looking for the opportunities that may exist as a result of those deliberations and the report. We aim to ensure that electricity bills are as low as they sustainably can be while maintaining energy security. We are always looking to increase the efficiency and effectiveness of the government businesses and we want to maximise the value of the carbon advantage and brand benefits that Tasmania has as a producer of clean energy.

I again put on the public record my thanks to the Chair, the board and the CEO and everybody involved with Transend for the work they have done and completed on our behalf this year.

**CHAIR** - Through you, Minister - a couple of opening questions to do with the Auditor-General's report. He had a couple of concerns. He said that the State Government's amended dividend policy has the likely potential to further deteriorate Transend's already negative working capital. That is a question I would put to you.

**Mr CHALLEN** - We have noted and respect the Auditor-General's views on this question but the board's view is that negative working capital is not a matter of great moment. Working capital is just current assets minus current liabilities. We can very easily make our working capital largely positive by doing some refinancing of our balance sheet. That is really about the proportion of our overall debt that falls under the one-year bucket. I do not think there is an issue there at all. In fact, I am a little surprised that the Auditor-General made something of it. I think the other issue that he has raised in paragraphs adjacent to that comment in his report is about the sustainability of the Government's planned program for equity withdrawal and the current dividend profile. The board has had to fulfil its Corporations Law duties very diligently and has done so. We have looked very carefully at this and we are completely confident that that program is sustainable through to the end of the current regulatory period, which takes us through to 30 June 2014. Beyond that, there is a little less certainty. I emphasise that it is only a little less certainty and the reason that there is a little less certainty is that we will be going into a new regulatory period. There will be a new revenue reset that will apply from 1 July 2014 which will require the board to re-examine the question of the sustainability of dividends and equity withdrawal once we know the outcome of that revenue reset. However, this has a very strong balance sheet indeed and in my view it is nearly inconceivable that the current program of dividends and equity withdrawal would not be sustainable well into the next regulatory period. So in terms of our longer term planning, we have assumed a minimum of eight years of the current dividend regime and equity withdrawal and I personally have a high degree of confidence that we will not see an outcome from the next regulatory reset that would upset that. I think the

Government, as shareholder, can plan on the current basis with absolute certainty through to 14 June and with a very high degree of certainty beyond that stage.

**CHAIR** - Yes, you did cover off on my question, two or three of his concerns.

**Ms FORREST** - Just on that point, Mr Chairman, I note that Transend plan to increase the borrowings by \$68 million in 2011-12 and a further \$100 million for the remainder of the current regulatory period. As a result - I think this was in the Auditor-General's report as well - the company's projected debt-to-equity ratios, which currently stand at only 7.9 per cent, will increase to 99.6 per cent next year and then 115.1 per cent by the end of 2014. So you are saying that you do not have any concerns about that?

**Mr CHALLEN** - No. In fact, that is a deliberate strategy. The Government has examined the balance sheet structures of all its electricity businesses but most particularly Transend's and it has recognised that for a transmission company we have gearing, a debt-equity ratio that is very low. The equity withdrawal program is intended to transition us to a higher level of gearing over a period of about eight years. It is a very modest transition. So the board's thinking, when we last examined the balance sheet in consultation with the shareholders and Treasury, was that we could sustain an additional debt of the order of about \$160 million. So there is a deliberate strategy going on to bring us up to a gearing level that is more traditional and more optimal for transmission company of our sort. It is a relatively low-risk business. Between regulatory periods, there is very little volatility in our revenue. So businesses like ours can carry more debt than we are currently carrying.

**Ms FORREST** - Are you saying it does not put any pressure on your cash reserves then because of the way that is managed?

**Mr CHALLEN** - No. We will manage that perfectly well, obviously by lifting our level of buying as equity is withdrawn. But this \$20 million-a-year program is very modest and very sustainable. It is not a concern.

**Ms FORREST** - It could be suggested by some that, effectively, the borrowings are to enable you to make the dividend payments to government and that has been frowned upon by some perhaps, looking at the Macquarie Bank example and things like that, who moved away from that. So you do not see that as an inappropriate use of borrowings?

**Mr CHALLEN** - Our dividend regime at the moment is that we are paying out in dividends 60 per cent of after-tax profit. So 40 per cent of after-tax profit is staying with the business to support our capital program. We have \$20 million of equity being withdrawn each year. We are borrowing \$20 million to fund the equity withdrawals. But we still have more than adequate cash flows to support our capital program and I imagine we will come back to talk about this later in the hearing, but our capital program is also tailing off. We have been at a historical peak of capital expenditure, just about where we are now. So we have one more biggish year coming up and after that there is a sharp tail-off in our capital program. For a business that is as strong as ours that is generating very healthy cash flows, there is no pressure on the business to meet these equity withdrawals.

I think the suggestion that we might be borrowing to fund dividend payments is incorrect because we are only paying out 60 per cent of after-tax profit and we have ample cash to support that. But in addition to that, there is a deliberate strategy to take us from a current balance sheet

structure which is relatively lowly geared to a new balance sheet structure eight years down the track which will be more highly geared and the only way you can shift your gearing is to borrow more and pay equity back to the shareholder.

[1.45 p.m.]

I know if you go back 20 years in Tasmania you can find examples of government businesses where there was a strategy in place of taking unsustainable dividends out of the business forcing the business to fund itself from borrowing. That is not the case in Transend's situation.

**Ms FORREST** - Mr Chairman, I am keen to go down the path of the capital expenditure but maybe later.

**CHAIR** - We will keep on the same theme.

**Mr WILKINSON** - We were talking about dividends and they are up over 100 per cent this year to \$28.6 million, I think, from about \$13.2 million. What is the projection in relation to the dividends over the next five years?

**Mr CHALLEN** - Our dividends can be projected with a reasonable degree of certainty through to the end of the current regulatory period so through to 30 June 2014. The current year's dividend is very healthy indeed because we had a terrific year in 2010-11. We are expecting dividends to stay out at about that level for another year and then to tail off a little bit as we get back to more normal circumstances. It is a bit more conjectural what will happen in the next revenue reset but, as I said in answer to the chairman's question, I personally have a high degree of certainty that we will be able to sustain that 60 per cent of after-tax profit plus \$20 million of equitable withdrawal. Beyond that, I think we would be chancing our arm in terms of where the Regulator might come out with our revenue in the next revenue reset.

**Mr WILKINSON** - Your capital expenditure is down from \$144 million to \$130 million this year and you said it is going to trend down quite substantially after this year, so one could argue that it would more than likely be in excess of \$28.6 million dividend next year?

**Mr CHALLEN** - We are projecting dividends at around about the current level all the way through until the end of the next regulatory period in our 10-year plan and that is on the assumption of a slightly tougher outcome from the Regulator in the next regulatory period. That is the basis for the comment made earlier about a personal fairly high degree of confidence that the current levels are probably sustainable. The capital expenditure on our current projections drops off quite sharply, so two years from now we are down to - I will just check the figure but, from memory, it is about \$75 million. If you look at our forecast for 2011-12 we are forecasting about \$121 million and then 2012-13 is the last of this bubble that has been working its way through for reasons I am happy to explain but we are projecting about \$136 million in 2012-13 but then in 2013-14 it drops to \$76 million so there is quite a sharp drop in capital expenditure and that reflects a whole lot of factors. A big part of it is the life cycle of our assets. Many of our assets have come to the end of their useful lives and have been replaced in recent years. There has been population growth in some areas. In Kingston we have had to put in a new substation. In Mornington and Sorell we are busily strengthening systems to support population growth.

There have been some peculiarities. We have had to spend a lot of money in Launceston in recent years. That is partly because there has been a lot of load growth in Launceston as a result of the wood heater buyback program. It has been successful there so people have been replacing

smelly, polluting wood heaters by nice clean electric devices and as a result of that there has been quite a lot of load growth in the Launceston area. Launceston also did not have a very good high voltage transmission network. It was weak and it was subject to outages that would have left individual groups of customers out for lengthy periods of time because we did not have alternative ways of getting energy supplied to them when a bit of the network fell out. We have just completed it and we will finish most of it this year.

**Mrs ARMITAGE** - It is good to see you are looking after Launceston.

**Mr CHALLEN** - Absolutely, and everybody else, too. With Launceston we spent a lot of money strengthening the network so if an asset drops out or there is an outage for some reason or other in that area we have alternative ways of getting electricity supply to people.

Those things are cyclical, they come around in 50-year cycles and we have seen a big spend in the last half a dozen years or so and now we will have a period of quiet spending down more like at that \$76 million level than at the \$136 million level that we have been up to.

**.Ms FORREST** - Just on that point, you talk about the work at Launceston and other places that is on upgrades as opposed to new work. There was a new substation at Kingston, you mentioned, but they are upgrades in Launceston. I am just wondering if you capitalise all those works.

**Mr CHALLEN** - Peter is better qualified to speak about that.

**Mr CLARK** - In the Launceston area over time we have upgraded the Trevallyn substation, which was the major point of contact, but we have also put in a substation at Mowbray and one at Rocherlea.

**Mr OXLEY** - Mowbray, instead of Rocherlea, yes.

**Mr CLARK** - The present upgrade is actually putting a transmission line from Norwood substation through to Mowbray so that we can secure up the supply.

**Ms FORREST** - The question was, is it maintenance or capital expenditure?

**Mr CLARK** - Capital expenditure.

**Ms FORREST** - What do you classify as maintenance, or do you not have much of a maintenance budget as such?

**Mr CLARK** - We certainly do, but that comes under our operating budget and that is for maintaining the plant that is already in place. However if we are going to increase its capability or its capacity then it is a capital increase.

**Ms FORREST** - So the majority of the costs are capitalised then in that area?

**Mr CLARK** - For upgrades, yes.

**Mr OXLEY** - We are talking about the distinction between renewal capital expenditure and augmentation. Some of the projects that Peter has just outlined are renewal - for example, where we have an old transformer that is past its serviceable life -

**Ms FORREST** - Did it fall off the back of a truck?

**Mr OXLEY** - No, it was not ours.

**Mr CHALLEN** - Ours are much bigger than that; ours would squash a truck.

**Ms FORREST** - Right.

**Mr OXLEY** - You might have an example like that where the item of plant has reached the end of its serviceable life and needs to be replaced with a like component or, as in the case that Peter just outlined in the upgrade around Launceston, over the past decade we have gone from one supply point, being Trevallyn, to now when we will have four supply points into the Launceston area. So that is clearly an augmentation of the network rather than a renewal or replacement of asset.

**Mr CLARK** - In effect in the Launceston area we have put a transmission line between Norwood, St Leonards and then Mowbray and that has formed the loop in the Launceston area at a cost of about \$48 million. That has been quite a large investment for us but for a long time it has been difficult to maintain a secure supply for the Launceston area. Over the last few years there has been a feeder system backup that has not been as reliable and would not maintain the supply to the Mowbray substation under events with the systems in stress.

**CHAIR** - Whilst we are on financials, does anybody have any further questions on that?

**Ms FORREST** - I want to look at their capital expenditure program, how much they are spending and where.

**CHAIR** - We will do in a second. Anything else on financials? No, okay then we will go on to capex then.

**Ms FORREST** - Looking at your forward plans, Don has mentioned the bubble and I assume the Waddamana line has been a fair bit of that. What is the future and an explanation around where you are headed with that over the next five to 10 years.

**Mr CLARK** - Over the next 12 months we have the Norwood, St Leonards, Mowbray augmentation which going forward is \$48 million. We are doing work at the George Town substation which is about increasing the security of supply. As you are probably aware, George Town is a major connection point to the National Electricity Market through Basslink. As the transfer of energy through the substation increases then we are effectively upgrading the substation to be able to maintain that security. It is a critical point.

**Mr WILKINSON** - Some may argue that it has something to do with the pulp mill as well. What would you say to that?

**Mr CLARK** - Effectively we are upgrading the substation so that we can meet the Basslink supply at the moment. We have the AETV generator connected. We believe that if the pulp mill

is connected then it has some co-generation within the plant so it is not as big a load as the pulp mill is in its entirety. But the George Town substation would have to cope with that as well.

**Ms FORREST** - So you would not put in an additional substation?

**Mr CLARK** - We have had a look at what the liability requirements are in the area. The substation is probably getting to the stage where you could build an adjacent substation to satisfy that secure liability process but the investment would be quite substantial. You would have to really need to do that.

We are doing work in the substation so that we can limit the impact of outages within the substation itself. So, looking at the configuration of the buzz bars and the connections for the circuit-breaker connections onto those buzz bars, if there is a fault, that impacts on the yard then we might lose the entire -

**Ms FORREST** - So you are building additional capacity basically.

**Mr CLARK** - Yes.

**Mr GREEN** - There is a fairly stark difference between the technology that is being built now compared to what we were hoping for. I was surprised to see just how in need some of the areas were with respect to modernisation. Paul has a few photos there.

**Mr OXLEY** - Do you want me to circulate that for you?

**Mr GREEN** - Yes, sure.

**Mr CLARK** - We also have talked about the Kingston substation; that area is growing quite significantly. So we are upgrading the substation from a 22-cable substation to a 33-cable substation. What that enables Aurora to do is to supply more customers using this, effectively by upgrading the present infrastructure. So it means that we are not out there building the new distribution infrastructure, we are just increasing, effectively, the capacity of that infrastructure and that is about \$15 million.

With the Palmerston substation, we are doing some work to replace some of the older 110 kb switch yard, which has been there since the power station was built in the 1960s and we are doing some work on 110 kb buzz which will enhance or enable us to supply the Avoca-St Marys area more securely with a better connection to the Palmerston substation. That is over the next year.

Our capital program starts to wind off as we move forward, and I think we have a list there of -

**Mr OXLEY** - To clarify what I have handed around, there is a series of photos to illustrate some of the projects we have done over a number years. We have selected four as indicative of the sort of things that have happened. Taking the first one as an example, the Risdon substation redevelopment, which we did a few years ago now, the first photo you see on page 3 is what the substation looked like before and the one below shows the substation after.

There is quite a bit of difference, as you can see. The outdoor switch gear which you can see in the top photograph, all that, if you like meccano set -

**Mr CHALLEN** - The rusty stuff.

**Mr OXLEY** - The rusty stuff has been entirely replaced. Incidentally, it is worth mentioning that this is the supply point to the zinc works here in Hobart; so this is where one of the largest loads in the State connects. It also supplies Aurora Energy. There are a number of feeders that go out into the suburbs of Hobart from Risdon substation. So the project there was to find a way to redevelop that substation without interrupting the supply to the zinc works and also keeping the supply on for Aurora and the solution we came up with was - if you turn the page you will see a picture of some gas-insulated switch gear - that switch gear has a much smaller footprint than the old outdoor stuff that you see on the previous page, and as a result you can see the overview on the bottom of page 3. There is a smaller footprint to the yard, overall. Modern switchgear of the type that we are now proposing to install can be seen at another local substation and that is at Creek Road for much the same reasons.

**Mr WILKINSON** - In relation to the Waddamana-Lindisfarne project, I understand there are a couple of blowouts in the costs of other budget of capital works in the past year. I am reading from page 13. The annual report indicates that 7 per cent of capital works projects were not commissioned on time and on budget. Can I ask what the reasons for this were, please, and which projects were affected?

**Mr CLARK** - Primarily the comment about that not being on time is the fact that it has been a pretty aggressive capital program and so what has happened is that those capital projects have been pushed out. So instead of being delivered, effectively, this financial year - and we have had a number of those occur - the Waddamana-Lindisfarne transmission line was delivered on time and under budget. In fact we delivered not just one transmission line but two transmission lines - a double circuit into Waddamana for the same price as the original estimate for a single transmission circuit, so that was a good outcome.

[2.00 p.m.]

The Mornington substation again was delivered on time and on budget. Most of the comment we make in the annual report is about those projects that are shifted in time frame, not necessarily shifted in costs.

**Mr GREEN** - Together with the installation of optic fibre.

**Mr CLARK** - The new transmission line also has optic fibre for communications as well. Going back to the capital development, one of the major capital developments over the next two years is to put optical fibre on top of a number of our transmissions lines in the northern area around George Town. Historically, transmission lines in Tasmania have not had overhead earth wires for lightning protection that gives shielding and that is through the nature of the fact that when we built a transmission system in Tasmania as a vertically-integrated business with hydro generation it was easy to adjust the generation output if there was lightning in the area and reduce the demand of transfer in those corridors. Within the National Electricity Market there is a penalty if there is lightning in the area and you do not have overhead earth wires. That means you have to reduce the capacity of that corridor to what is called 'firm capacity'. In other words, if one of those transmission lines trips, you would not overload the other one. Under the market there is a cost to the price of energy if you reduce or change the dispatch. So in effect we are putting overhead earth wires to give better lightning protection for those transmissions lines but at the same time, by putting up that conductor which has a fibre-optic core, we can also put



communications along the transmission line and increase our capacity to communicate with the substations for remote control and protection. You can potentially use that for other purposes as well.

**Ms FORREST** - Are there plans to expand that beyond those areas you are currently looking at?

**Mr CLARK** - When we complete the installation between Sheffield and George Town and George Town and Hadsphen into Launceston, that will give us a continuous fibre-optic network from the north-west corner down to Hobart. Presently we operate our system communications network, which is microwave, and this will enable us to retire some of that microwave infrastructure as time moves on and provide a fibre-optic backbone with a redundant path through a microwave network.

**Mrs ARMITAGE** - Do you have a time frame for that?

**Mr CLARK** - We do not for the final retirement.

**Mr GREEN** - On existing infrastructure, it is a big task and quite a dangerous one.

**Ms FORREST** - You do not do it when the lightning is happening?

**Mr GREEN** - We do not do it while the power is on.

*Laughter.*

**Mr CLARK** - We are looking at having the majority of this work done in this revenue period, to 2014. When you talked about capital investment, our capital program is quite certain up until 2014. However the capital program from 2014-19 is still under development. We have a 40-year plan which says, 'This is what we would expect the transmission system to look like over time'. We publish an annual planning report which effectively identifies those programs out for the next five years. It is a progressive -

**CHAIR** - Mr Challen talked about the bubble being almost reached in terms of capex and that is diminishing somewhat. It is a similar question to one I asked this morning with regard to Hydro - and if we had the unpalatable matter happening of, say, a Rio closing, and they are 50 per cent of our industrial power -

**Mr CLARK** - About 300 megawatts, which is around about a quarter all up.

**CHAIR** - So if something like that happened, do you have a strategy? Obviously, if that did happen, if I can paint a scenario here, if you lost that major user, the rest of Tasmania would have to be paying for all that infrastructure that is in place. I know you talked about Bell Bay and upgrades and I acknowledge that you have to do all that sort of thing, but would you concede that would leave small business, the other larger parts of business and everybody else, with a pretty significant load cost to bear?

**Mr CHALLEN** - It is a very hypothetical question. What sits behind this is how the national electricity rules work for transmission whereby the Regulator sets a cap on how much revenue we may raise during the regulatory period and that is spread over whatever customers there are in the

system. That is the fact of life that if the customer base changes, then whoever are the customers at a particular point in time will have our capped revenue spread over them.

**Ms FORREST** - You only have 18 customers, haven't you?

**Mr CHALLEN** - Sixteen.

**Ms FORREST** - So there is not a lot if you take the big one out.

**Mr CHALLEN** - But one of those customers is Aurora, which is a huge customer, and some of the other 16 are pretty big and, of course, amongst the 16 are the major generators as well. I do not think it is helpful to get into hypotheticals about individual customers.

**CHAIR** - It is hypothetical but it is possible.

**Mr CHALLEN** - All things are possible.

**CHAIR** - That is what I am saying.

**Ms FORREST** - What is the risk management strategy?

**Mr CHALLEN** - Transend cannot do much to manage the risk of an individual customer leaving, apart from what we are doing, which is to do everything we can to minimise the transmission component of electricity prices and we are working very hard at that. Hydro does have some risk management strategies because if they lose a customer for their energy output then there are some other things they can do, including exporting it over Basslink. But Transend is not in that position. We have a stationary network and we have to raise the revenue that is necessary to support that network.

**Mr CLARK** - At the national level there is a program looking at transmission charges in general. We are supporting that investigation which is looking at the proposal where use of a transmission network to provide other regions is recouped by the region. So in that hypothetical, with that type of scenario then, if we are continuously exporting energy to the northern States, then effectively they potentially could pick up costs of operating our transmission system as well, or some of those costs. That is also part of that hypothetical and in that process we understand that risk arrangement and we are working with the national regulators to consider what that may do for Tasmania.

**CHAIR** - Do you benchmark yourselves against other jurisdictions in terms of your cost of delivery and everything else in infrastructure?

**Mr CLARK** - It is very hard to directly cost ourselves against the other jurisdictions because of the different sizes and the different terrains. We do benchmark ourselves against our maintenance costs and performance through our ITOMS process, which is through 27 international members of that assessment and over the last five years we have moved ourselves progressively from being a relatively high-cost, low-reliability system to being a relatively modest-cost, high-reliability system.

**CHAIR** - A question that flows from that modest cost, can you get to lower cost or is that because of our terrain or what are the issues there that prevent us from becoming even more -

**Mr CLARK** - We are continuously looking for improvement. As a business we are looking for the efficiencies that we can gain within the business. The regulatory regimes are very interesting in that, as we do build those efficiencies into our business, when we go into the next revenue proposal, they accept those and take those away from us and we have to start building in more efficiencies. So the more efficient we get, the shareholder gets the benefit this revenue period. The next revenue period, the customers get the benefit but then we have to continue to run the business more efficiently. So there are incentives on Transend to improve its performance over time.

**Ms FORREST** - We did not really get to the bottom of where we are headed with the forward plan with capex and the big blip now. Can you take us through the forward plan?

**Mr CLARK** - The forward plan is that we have looked at this moving out so we are dropping down to about \$75 million by the end of this program. We see that the capital program for the next revenue period is looking to be somewhere between, say, \$300 million and \$350 million.

**Ms FORREST** - That is a five-year period?

**Mr CLARK** - Over a five-year period, so we have gone from this period, in which it was \$600 million and we see that reducing substantially in the next revenue period. A lot of that is to do with the fact that there is still ageing infrastructure that needs to be put in place. There is not the same, effectively, load growth. We have not seen the same load growth continuing into the next period and, unfortunately, transmission infrastructure is one of those things where you put in big blocks so you do not put in 10 megawatt increments. When you put in a new infrastructure you put in a 100 megawatt increase so it takes a long time for that to be used up but then you get to a stage where you need to put in another 100 megawatt increment.

**Ms FORREST** - With the proposed decrease in capital expenditure in the next period, is it safe to assume then that the majority of the assets are in a pretty fit state at that point when we get there? That was one of the questions in the past that the infrastructure was old, it was poorly maintained, inadequate in some cases and certainly not able to meet increasing demand and we can only hope and assume that Tasmania's demand might increase over the next five-year period. Is that a safe assumption to make that it is up to standard and that is why there is the wind-back?

**Mr CLARK** - The investment that has just been made, the \$600 million over this period, is really to bring the transmission system up to a stage where it was fit for service. The nature of the transmission system is that a lot of that investment is a 50-year investment. The challenge is making sure that you continue to make some investment during that time so that we do not get to the stage that we were in at the beginning of 1998 when Transend was formed in effect, where the infrastructure was not in the state you wanted it to be but effectively, we have had to put a lot of capital in to bring it up to standard and as we move forward, continue to invest in it more modestly to ensure that it stays at that level to provide ongoing capability for the Tasmanian public.

**Ms FORREST** - There is no identified major project after the Lindisfarne line really at this stage?

**Mr CLARK** - There are areas of the State that indicate that if things happen then we may need to increase the capacity in the areas of the north-west or the north-east.

**Ms FORREST** - For the dairy plant, for example, up in the north-west?

**Mr CLARK** - I would expect that the size of the dairy plant would not be substantial enough to increase it.

**Mr GREEN** - Mount Lindsay?

**Mr CLARK** - For Mount Lindsay we would expect that that will be an augmentation of the present transmission system and -

**Ms FORREST** - It is a very good location for that at least.

**Mr CLARK** - Yes, effectively it is tapping straight into the Farrell-Rosebery transmission line so I would not see that there would be any additional infrastructure apart from that infrastructure.

**Mr CHALLEN** - These are both relatively small projects and they are both customer-driven. Waddamana-Lindisfarne, for instance, was a very big project and it was not customer-driven; it was about improving the security of the electricity supply in the south.

**Ms FORREST** - Are Venture Minerals required to make a contribution then to the upgrade that would be required at Mount Lindsay if that were the case?

**Mr CHALLEN** - Venture Minerals would pay.

**Mr CHALLEN** - It is the customer.

**Ms FORREST** - They pay for the entire connection there.

**Mr CHALLEN** - Likewise, and obviously it has been in the press in recent times, we are thinking about the Musselroe wind farm connection, where the customer is going to pay for that. That is not something that will be smeared across all electricity users in the State.

We do have some examples of decent-sized projects that are still around but there is nothing of the order of the Waddamana-Lindisfarne project and that is the biggest project Transend has ever done. A big project that we have on at the moment is the replacement of the Creek Road substation that Peter and Paul mentioned earlier but that is only a \$22 million project and that is why -

**Ms FORREST** - That is what I am asking, Don, is there anything major coming up, but you are saying no?

**Mr CHALLEN** - That is what I mean by 'major' now. I do not mean a mega-project like Waddamana-Lindisfarne was. Those projects do not come up very often and we would only see one of those in the next few years if there is something very significant that happens in growth of the load on the system or some big changes in peak loading on the system or some major changes in generation assets on the system.

[2.15 p.m.]

**Mr OXLEY** - It is probably worth making the point, just to elaborate on that, Chairman, that with an asset base in the order of \$1.5 billion you will have an ongoing replacement program come what may. Whether you get additional customer demands, that is additional to that, but it is inevitable that there will be an ongoing capital program, just by virtue of the size of the asset base and the varying maturity dates of various assets. So there will always be an ongoing program. To pick up on another point that Ms Forrest made, she referred to the assets being poorly maintained. I would take issue with that. The assets are always well maintained.

**Ms FORREST** - Before you took them over, I was suggesting.

**Mr OXLEY** - That was some time ago and even then I suspect our people would be not too happy about that suggestion. They have always been well maintained, nevertheless a lot of them were very old and had to be replaced. I think that is the material point in relation to capex.

**Mr WILKINSON** - Sounds like the passage of life.

**Mr OXLEY** - That is right.

**Mr CHALLEN** - It is also the case that the Regulator's and consumers' expectations about the reliability of the electricity system have substantially increased. As our day-to-day lives become more and more dependent on continuous, absolutely no hiccups electricity supply, so the reliability standards have increased. There have been two big events that have affected Transend's capital expenditure trajectory; one was disaggregation from the Hydro in which there was a whole fresh look back in 1998 about what the transmission system needed. Everybody knew when Transend was set up and separated from the old Hydro that we had a big capital program as a result of the review that was done at that time. That is why initially Transend was set up with very little debt on its balance sheet. The other thing that has been very significant is our moving into the National Electricity Market where instead of having our local Regulator setting our reliability standards we have to perform to the same reliability standards as every other transmission company in Australia, and probably the world. That has upped the ante in terms of what we have to do and has provided this focus for improving the reliability of the system, which was really the big thing that has caused this bubble in our capital expenditure in recent times.

It is also very important to remember that most of our assets last for about 50 years. If you say 50 years from 2011, you go back to the beginning of the 1960s when a lot of these assets were being put in - the 1950s and 1960s. Creek Road substation was built in the late 1950s. So it is not surprising that when you walk up there now it looks like something out of Heath Robinson and there is a lot of rust around, it is its time in its life to replace it. Not too many of us are going to be here but come back in 50 years' time and we will be doing it again.

**CHAIR** - Minister, Dr Goodwin has another knitted brow so we had better give her a turn.

**Dr GOODWIN** - I just wanted to ask about the Grid Vision 2040 because presumably this will flag some of these areas where you might need to make investments down the track. It does mention that a public edition of that is expected later in the year.

**Mr CHALLEN** - We meant the financial year.

**Dr GOODWIN** - It is out?

**Mr CHALLEN** - No, it is coming.

**Mr CLARK** - As you are probably aware, we have engineers that put these documents together. Engineers might understand it but everybody else has to understand what goes into the grid vision, so we are making sure of that.

**Dr GOODWIN** - What are you hoping to get out of releasing it publicly?

**Mr CLARK** - The intent is that proponents that are looking more broadly at the system might come back to us and indicate where they see developments that they might put in place. There is an understanding that in effect as time moves on if these things happen then we do have to invest into the transmission system. People like yourself are certainly audiences for that so that you understand that these sorts of things could happen. It is a broad brush to ensure that information is out there about where we potentially could go. It is based on scenarios. We do look at this thing every five years and look at the scenarios and some of those drop away and some of those come on depending on what is happening at that particular time.

**CHAIR** - Through you, Minister - there is an engineering answer to this, obviously, but you build your infrastructure to meet a peak load, one would presume.

**Mr CLARK** - Yes.

**CHAIR** - Is there any way that in the future you could then dilute that capex by lowering that peak load? As I understand it, and you will correct me if I am wrong, the major industries have a flat load. Is there any way you can try to manipulate the system so that you do not have to gold plate it, if you like, to build everything to meet that peak load or is it not possible?

**Mr CHALLEN** - We do not gold plate anything, I promise.

**CHAIR** - I thought I would get a bit of a rise out of you then, Mr Challen.

*Laughter.*

**Mr GREEN** - It is a commonly used phrase on the mainland. We are conscious of the cost associated with that.

**Mr CLARK** - I can assure you Transend only builds assets we need to build; we do not build them just because we want to build the asset. There is a lot of work presently in the area of smart goods and we are working very closely with Aurora in indicating what that might mean with smart meters at customer premises. There is the opportunity to take advantage of reducing the load within the distribution system and also at major industrials with processes that in the future we may be able to offset investment in transmission. There is a project at the national level called 'Power of Choice' which the AEMC is undertaking to look at this more broadly, how the market may set itself and may encourage demands such as participation. I have been working on that panel with the AEMC to get a broader view of how customers could help transmission systems and distribution systems reduce the requirement for further investment.

**Dr GOODWIN** - Can I just tease out that gold-plating revenue-raising issue that comes up in relation to the regulatory framework? There have been some criticisms and concerns around that about the increases in transmission prices. Can you tease that out a bit, please?

**Mr CLARK** - I think one of the challenges with transmission investment is making an investment that meets the requirement. Under the rules for investment there is an incentive, if you are a transmission service provider, to invest in more infrastructure because that is how your revenue is determined. However, in Tasmania we have not done that; we have used technologies to reduce investment in transmission infrastructure. When Basslink went in place we put in a special protection scheme so that we could operate the transmission system much higher than it would normally be operated without making that capital investment. In the north-west at the Woolnorth wind farm we have automatic control schemes on the wind farm so that we can operate the wind farm to full capacity and not invest in the transmission system, so for those events where a transmission line fails, the wind farm will reduce its output automatically and we do not have to upgrade the transmission system.

**Mr GREEN** - And there is bushfire risk, mitigation against potential bushfire risk.

**Dr GOODWIN** - So essentially you refute the suggestion that there has been some taking advantage of the regulatory framework in terms of the incentive for capital investment?

**Mr CHALLEN** - We do, and I think it is important to understand that the regulatory framework itself has some checks and balances in it. We put a proposal up to the Regulator about our capital program and the first things he does is show that to his engineering experts and say, 'What do you think of this program and the way Transend is proposing to meet the needs?' If we were seeking to overcook it or gold plate, the first thing that is going to happen is the Regulator's expert engineering adviser will say, 'You don't really need to do that'.

The second point is that we have internal processes that guard against that. Even after an investment has been approved by the Regulator and ticked off by the Government in our corporate plan, every individual investment has to have a business case. Anything of any size comes to the board and the board insists, and always gets, business cases which show the various options for resolving the problem that is being dealt with by a particular piece of capital investment. I can assure you this Transend board is very focused on finding the cheapest way of getting the right outcome, not the engineering, sexy way of getting the right outcome. There is only one engineer on the board and the rest of us are not interested in sexy engineering solutions, we are only interested in doing things cost effectively.

*Laughter.*

**Mr GREEN** - I am reminded that the AR is having a review of the rules, which has been flagged by the Chair in his opening remarks in the annual report. From our point of view, it is a matter of weighing this whole question about energy security against the investments that are required, and I think the photos that he is going to show are worth a thousand words. Work was required and is required and we have to balance that. But it is true; people can focus on the Regulator's determination with respect to revenue and say that if we had not done those things then it would be less. I trusted the board as managing this in a prudent way.

**CHAIR** - Ruth has a question on capex-type stuff.

**Ms FORREST** - It goes along that line, Mr Chairman. I know there have been a number of submissions put into the expert panel and one of the things that I understand has been considered is a merger of Transend and Aurora's distribution network and aspects. So I am wondering what Transend's view is on that - picking up poles and wires basically.

**Mr GREEN** - I think what we will do is wait and see what the expert panel has to say with respect to all those matters. Other than that, effectively, it is hypothetical. Obviously, Transend has cooperated and assisted with respect to the submissions that are being put forward but other than that, I think it is best to wait.

**Ms FORREST** - It would be fair to say though, wouldn't it, that there is a degree of capital expenditure required on the poles and wires of Aurora and that that could impact on the capital expenditure requirement into the future for Transend if that were to be recommended and taken up?

**Mr GREEN** - There are questions for Aurora with respect to the capital investment that has been made in the past and potentially what can be made in the future but they, too, are having a drop-off with respect to the capital investment program that they have before them. We are all waiting for the report. Once we see the report we will be a position to comment in a better way but I would not expect any hypothetical discussions to be had around this table today on Transend's view or Aurora's view or anybody's view about what the panel might come up with.

**Ms FORREST** - There has been a bit of discussion from some stakeholders about the impact of the economic reset by AER coming up, and we were informed that Transend has a view of the revised merits review process. What is Transend's view on that issue? Some others say it provides a more balanced approach because Transend have nothing to lose if they want to appeal because the cost is passed onto their customers, not met by Transend.

**Mr GREEN** - But Transend would argue that they would justify it with respect to the application from a year or so ago. They were successful. These were decisions that were made at the time with respect to whether it was prudent to seek a review and it was successful.

My view would be that we would always be having a good look at whether or not we pursue the merits review along the same lines on into the future.

**Ms FORREST** - But it is being looked at, isn't it, and to be changed?

**Mr GREEN** - Yes, the whole thing is being looked at, at a national level.

**Mr CHALLEN** - There is a rule change before the AEMC - the Australian Energy Markets Commission - at the moment and one of the issues that is wrapped up in that is the future of the merits reviews. The AEMC is going to go through a process and it will take over a year to resolve that problem. But it is important to understand that merits reviews are just part of a regulatory process in which occasionally mistakes are made and the merits review is an opportunity for people to appeal to a higher authority when they think a mistake has been made.

[2.30 p.m.]

It is not a case of 'you don't like the outcome so you have another crack at it'; you have to be able to demonstrate that an error has been made. This is before my time, but a year or so ago the minister was talking about Transend and a couple of others – such as TNSB - were able to argue



successfully that an error had been made. In a regulatory system like the one we have, there have to be a few opportunities for appeal to a higher authority if something goes wrong and things do not go wrong very often but this is a case where they did.

**Ms FORREST** – Regarding the rule change, do you see that as a negative or a positive thing for Transend?

**Mr GREEN** - As long as they get it right all the time.

**Mr CHALLEN** - The rule changes which the AEMC is currently considering are very complicated and I have just reviewed the submissions that the two industry bodies that Transend participates in are putting up, and just the summary of each of these two is over 60 pages long. One of them has hundreds of pages of material. So there is a lot of complexity in these things and these submissions will be in the public domain within a week or so. So you can see what the two industry groups are saying, that Transend subscribes to. But when you read those you will see that you cannot say Transend is in favour or Transend is not because there are a lot of places where we say, on balance, there seems to be a need for a bit of tweaking to improve things here or here is a case where they are looking at changing the rules or a rule change has been proposed and we think that bit of it works quite well. It is not a simple thing where you can say we are in favour or we are against.

**Ms FORREST** - But you are obviously participating in that process?

**Mr CHALLEN** - We are, through the two industry bodies that we are members of.

**Ms FORREST** - Which industry bodies are they?

**Mr CHALLEN** - The Energy Networks Association and Grid Australia. Grid Australia is a small group of about six transmission companies, like us, and Energy Networks Australia is a much larger group that includes transmission companies, distribution companies and gas distribution companies.

**Dr GOODWIN** - Before we move off this, can I ask what sort of cost is involved in the review process because that was an issue that was raised with us in a briefing ?

**Mr CHALLEN** - The TESI review?

**Dr GOODWIN** - Yes.

**Mr CHALLEN** - It is not an issue for Transend.

**Dr GOODWIN** - No, when you are appealing a decision or seeking a review or -

**Mr CHALLEN** - Do you mean like a merits review?

**Dr GOODWIN** - Yes.

**Mr CHALLEN** - I do not know that we have those numbers. We would do those mostly with our internal staff who work in the regulatory area. We might need some external assistance from lawyers to do that. These are not hugely expensive exercises.

**Mr CLARK** - With the merits review, we were only a small part of that review and we supported TransGrid and I think it was Energy Australia and a number of other distribution network service providers. So our proportion was quite small. Being spread across a larger number makes it more sustainable.

**Dr GOODWIN** - Yes, but if it becomes essentially a legal battle and the costs are to outside parties -

**Mr GREEN** - That is where the board comes in to make a decision as to whether they pursue it or not.

**Dr GOODWIN** - Yes, but I am thinking, coming from the other end, if it is one of your customers who is going through that process, then it could end up being quite significant in terms of cost for them. I am trying to get a feel for that.

**Mr CHALLEN** - People do not go into these exercises with their eyes closed and you always embark on one of these reviews with an understanding of what likely cost are and, as the minister very correctly says, the board will focus on whether this is in the company's interest in terms of the likely outcome far exceeding the costs involved and how it impacts on our ultimate owners, the Tasmanian community. One of the nice things about being a government-owned business when you are in the transmission business is that you can see beyond the impacts on Transend Pty Ltd to the impacts on the wider Tasmanian community because, at the end of the day, that is who owns us. We would not want to do something that would not be in the overall interests of the community. It would not be consistent with Transend's values.

**CHAIR** - Obviously there were a few quotes in the annual report but if I refer to carbon tax it says, 'The new carbon tax will increase the cost of key inputs. In the short-term this will affect the profitability'. Do you have an estimated impact on Transend's profitability from the carbon tax? Secondly: If the carbon tax has a negative impact on some of Transend's customers, could it also have a medium- or longer-term effect on profitability?

**Mr CHALLEN** - We do not have a specific estimate of the impact on our profit but, with one exception, Transend is not a carbon-intensive business. So the main impact on our own business is more likely to be through the cost of some of our capital upgrades. Peter spoke earlier about gas-insulated switching systems. The gas that is used to insulate those systems is called SF<sub>6</sub>, which is effectively rated as a greenhouse gas and the way the Commonwealth legislation works, the cost of that gas is going to go up sharply as a result of carbon tax arrangements. There are some legal complexities but at the end of the day that is what happens. One of things that we are going to see is that once the new carbon tax arrangements are in, the cost of gas-insulated switch gear is going to be higher than would otherwise be the case.

**Mr GREEN** - Of the switch gear itself?

**Mr CHALLEN** - The gas in the switch.

**Mr GREEN** - It would not be emitted though, would it?

**Mr CHALLEN** - No, but the way the legislation works you have to pay the tax when you use new SF<sub>6</sub> regardless of whether it escapes to the atmosphere or not. That is okay, that is the

only example that we can think of that is peculiar to Transend's business. In other respects it will just be to the extent that the carbon tax flows through to the cost of our inputs like it does for any other business or any other taxpayer.

**CHAIR** - So it has a fairly minimal effect?

**Mr CHALLEN** - It is not a significant thing.

**Ms FORREST** - Is it a bit unknown as well, are there still some aspects to be determined with regard to the impact?

**Mr CHALLEN** - No, not that I am aware of. It is just that we have not done a precise estimate of what it is likely to be and I do not see it as productive, to be honest. It is something that will work its way through over time.

What we were trying to say there in the annual report is that carbon tax is not really an issue for Transend. It is potentially an issue for some of our customers who are carbon-intensive. When you are thinking about Transend, do not really worry about the carbon tax because it is not an issue for us. But maybe there are some other contexts in which it is worth thinking about.

**Mr WILKINSON** - I suppose most people outside would be telling us to ask a question in relation to prices. We were told by Hydro that the wholesale price has not risen in the last 10 years. They say blame it on the increasing costs of the poles and wires. Firstly, what do you say to that comment? Secondly, can you look into the crystal ball at all and give any indication to us as to what will happen to prices?

**Mr CHALLEN** - I do not have it with me but it is a matter of public record, you can break down electricity price increases over a decade into their components and my understanding is, and I do not want to contradict someone else that has been before you, that energy has been a component of the increase in electricity prices.

**Mr GREEN** - Not to the same extent.

**Mr CHALLEN** - That is true. But there is no doubt that transmission costs have been a contributor to increases in electricity prices but I think you can be quietly confident that we will not be a big contributor to the extent that we have been in the past into the future. The main reason that I am confident about that is that bubble in our capital program has passed.

**Ms FORREST** - That will not lead to reduction in costs though, will it?

**Mr CHALLEN** - It is theoretically possible, whether it will actually happen is another matter.

*Laughter.*

**Mr CHALLEN** - We are going through an internal process at the moment in which we are trying to set ourselves a target for the way that we run our business for our impact on electricity prices to be less than CPI. So we want to have a CPI- $x$  impact. At the moment we are doing some internal work to try to work out what  $x$  is. Part of the reason for that is to set Transend the organisation a stretchy target to try to run our business more efficiently, to manage our capital

program in a way that we are not a significant contributor to electricity prices in the future. You will be able to judge when we are back before you in the years ahead whether we have been successful.

**Mr GREEN** - Can I just say - through you, Chair - that it reflects what we talked about before today, earlier in the day when we were addressing issues associated with Hydro, that there has been a sharp change in the focus in the commentary around what we do from an energy business perspective here in Tasmania. In the past all of the issues that we have had to confront were about energy security and there has been a change in certainty of supply, and the fact is that there has been a change brought about by cost-of-living pressures and the focus has now switched specifically to the cost of energy delivered to customers. I think that all of the decisions that have gone before have been absolutely prudent with respect to maintaining energy security and the board's and our expectation has been that for each and every board, and that will be reflected in the conversations we have with eventually the energy entities over this week, the focus has shifted to making sure that we can demonstrate to the Tasmanian people that we are putting downward pressure on prices. Flicking the switch and the light coming on has been absolutely vital and, as the Chairman pointed out, the world has changed and it has become even more vital particularly to business and everybody who operates in a modern world. We did have a responsibility to spend in this case in a regulated way to ensure that we provide that certainty.

I am once again satisfied, having had the discussion post-board meetings with Transend, that they are concentrating on squeezing as much as they can out of this business so as to ensure that they minimise their impact on the price to consumers here in Tasmania.

**Mr WILKINSON** - That increase that we were talking about and that Don mentioned previously mainly relates to the capital expenditure over the last few years as a result of the age of the -

**Mr CHALLEN** - It is a bit unfortunate that it did not happen a bit earlier because when the economy was more robust pre the GFC, electricity consumers were better equipped to absorb cost increases and I think the sharp focus that has come on this issue in the public debate, quite properly, is partly driven by the fact that we have seen some large increase in electricity prices at a time when the economy has not been performing that flash -

**Mr GREEN** - Internationally.

**Mr CHALLEN** - Yes, everywhere. People are doing it tougher so they are quite properly very focused on electricity prices and no doubt everything else. We do not have a problem with that. What we want to do is provide a reliable and robust and secure electricity supply for the least possible cost and that is what we are there for.

**Mr WILKINSON** - As far as Transend is concerned, from what I hear, the capital expenditure has been made and therefore the prices will not increase to the extent that they have in the recent past.

**Mr CHALLEN** - That is correct.

**Ms FORREST** - Particularly with the capex spending winding back a little bit. The question that then flows from that is: because it is winding back a bit, is there more capacity perhaps for transmission costs to be less and flow on to the customer? Because one of your biggest customers

is Aurora and if the capital expenditure is less because there is less need for that amount of work that you have been doing that you have identified, are we likely to see a reduction in the transmission component of the cost to big customers such as Aurora?

**Mr CHALLEN** - I think that is probably too much to expect. I think what you can hope for is that with electricity prices in general going up by about the CPI, the transmission component will be going up by less than the CPI.

**Ms FORREST** - So it will be going up more slowly; is the best that we can hope for?

**Mr CHALLEN** - That is what we target. The two things that drive our component of Aurora customers' price are our capital program, and we have seen one year out that is going to drop down quite sharply, and our operating costs. It is hard work to drive down operating costs but that is what Peter and I are trying very hard to do, with support from the board and from the rest of the business, too.

**Dr GOODWIN** - Given that you have to replace your assets, and they last 50 years roughly, will you try to keep your capital expenditure at a fairly steady rate over the next so many years, is that what the plan is?

**Mr CLARK** - Yes, instead of having a bubble.

**Dr GOODWIN** - Yes, instead of having a bubble.

**Mr GREEN** - The bubble was the Waddamana line, which is the biggest project ever undertaken, plus a number of others that have been described on the chart.

[2.45 p.m.]

**Dr GOODWIN** - That was essentially a spike?

**Mr CHALLEN** - It was not just that asset. There were a whole lot of things going on.

**Mr GREEN** - We started talking about it before the GFC, too.

**Mr CHALLEN** - Absolutely. There are a lot of assets in our network that were built in the 1950s and 1960s and they came to the end of their useful life and have been replaced. As I mentioned, the Creek Road substation development that we are about to start on - the board has only just approved that one - is towards the tail end of that. There are assets that are being put through every year since 1950. They are coming up to their fiftieth year and we are looking at whether we can stretch them out for a few years or whether we can replace them.

**Dr GOODWIN** - But the ones you have just replaced, 50 years down the track they will have to be replaced again. It never ends.

**Mr CHALLEN** - I cannot promise you there will not be a bubble in 50 years' time, but what I can promise you is that you will not have to worry about it because we will not be here.

**Dr GOODWIN** - Hopefully I will.

*Laughter.*

**Dr GOODWIN** - I will still be out there in the community paying.

**Mr GREEN** - It could all be distributed energy; you would not know in 50 years' time.

**CHAIR** - With regard to loss of supply - and I think it was mentioned there were three serious outages last year - could you comment on why they happened and what the rectification program is on those?

**Mr OXLEY** - Are you talking about the financial year or the calendar year? We have a couple of reporting periods.

**CHAIR** - Calendar year.

**Mr OXLEY** - We report on calendar years for those events because that is the time frame that the Australian Energy Regulator requires. You are talking about the events as recorded on page 10.

**Mr CLARK** - These were the two in 2010 - one was at the Risdon substation and that was due to a protection maloperation during work at the substation. A system minute is equivalent to the power system shutting down for one minute. The Nyrstar plant is a large plant and the duration of the outage was 120 minutes, so that equated to effectively the whole system being out. When our protection people were working in the yard we found a problem with the protection equipment - when they were working in the yard they tripped the transformers - and the time for putting it back was making sure of the reason it tripped and then making sure that we would not trip again. Following that, we have gone back in and audited the protection equipment and made sure that there are no similar traps in the protection equipment in the yard so that when we work on it we do not take that potential to trip the equipment again.

The other one in that year looks as if it was Sorell. That happened when we were doing work in the substation. We were upgrading the substation and taking out one transformer. We had Sorell effectively hanging on one transformer and one transmission line and during that period the transmission line failed and we lost supply into Sorell. It took an extensive period of time to get operational staff in place to restore supply to Sorell. Normally we would not run with a single transmission line into the area but we have been doing that work in the Sorell substation, upgrading it, and in this event we were caught out in timing.

**Dr GOODWIN** - This is the one that hit the Eastern Shore?

**Mr CLARK** - Yes.

**Dr GOODWIN** - So it was not the Rokeby substation, it was Sorell.

**Mr CHALLEN** - The Sorell one was in March. There was a Rokeby one in May.

**Mr CLARK** - Sorry, that was the Lindisfarne/Rokeby/Sorell transmission line that tripped and we do not know why the transmission line tripped, but the time it took was actually to restore it.

**CHAIR** - So all three were in the south then?

**Mr CLARK** - Yes.

**CHAIR** - That does not matter then, that is okay.

*Laughter.*

**Dr GOODWIN** - Yes, all right, at least he is still a little bit concerned about this last one.

**Mr CLARK** - Every time we have an event, particularly greater than one system minute, if you go to the Tasmanian Regulator's web page you will see a report on each of these events that we prepare because for anything over one system minute our licence requires us to do that. But we, as a business, investigate why these things happen.

We are severely financially penalised by the Regulator for loss of supply and so we do what we can to determine what the cause was so that we can hopefully prevent it from happening again.

**Dr GOODWIN** - But you are not sure what the cause was.

**Mr CLARK** - There are events that occur. With the Rokeby substation one, we believe we had a high-resistance fault on the transformer but we have not been able to identify where that is. We have had the transformer out, we have tested it, we have tested the protection equipment. There was a fault somewhere that reflected on the transformer and we have not been able to identify that.

It may well be that the fault actually occurred out on one of the feeders and reflected back on the transformer protection to disconnect it, but we have not been able to identify the specific cause of that fault.

**Dr GOODWIN** - Could it happen again then if you do not know what caused it?

**Mr CLARK** - We have checked and double-checked everything we have in place. I could not say it will not happen again but we have done all we can to identify and try to rectify that problem.

**Dr GOODWIN** - So I will keep the candles and the torch handy, just in case.

*Laughter.*

**Mr GREEN** - If it is in terms of the equipment and the standard of the equipment -

**Mr CLARK** - We have checked the standard of the equipment.

**Mr GREEN** - It is modern.

**Mr CLARK** - Yes, it is modern equipment. It is a well-maintained substation so the equipment is not the issue.

**Mr CHALLEN** - Like all our substations.

**Mr CLARK** - Yes, all our substations are well maintained. The issue is these are very complicated systems and we need to ensure that we check them rigorously. On this occasion, we did not find anything specific but we may well have adjusted something in the process.

**Dr GOODWIN** - It has nothing to do with the load or anything like that, if it is a really cold night and everyone has everything on?

**Mr CLARK** - No, we have ample capacity.

**Mr WILKINSON** - How is capacity going in relation to what is out there? Some say putting too much load on the system creates this tripping. You are quite satisfied that throughout Tasmania there is ample load on the system?

**Mr CLARK** - Our annual planning review identifies those pinch points. There are a number of pinch points in the system where places like St Marys and Norwood, up until recently, have dual transformers in the substation and we do get firm capacity, which means that if one of those transformers trips, we will have to disconnect customers.

We have short periods of time during the winter when we do reach that capacity and we know with places like St Marys the cost of putting in a third transformer or upgrading the supply is high and it does not meet our reliability standards. So we have gone back to the Regulator and asked for an exemption for that point because it is not cost-effective to do that and the probability of having a problem at that point in time when the load is up. We effectively split the load in the yard. Instead of having two transformers joined together, we have two transformers running separately with half the load on each so we can still maintain the supply. In the event that there is a problem on one of those transformers then the customer is going to be disconnected.

That is where you need to assess reliability standards and the need for investment and what would be practical from an economic perspective for that site. There is a couple of substations in the system where we are at that point where we do split the buzz but we are progressively working through where we can to rectify that.

**Mr WILKINSON** - That is why you are doing Kingston, Sorell, et cetera?

**Mr CLARK** - Yes. But there are points like St Marys where, without substantial load growth, there is no point in doing that now until the equipment needs replacing.

**Mr WILKINSON** - In relation to the forward planning you would, I would imagine, then look at the demographics and where there is going to be an increase in population maybe and therefore set your targets for an upgrade, if that is needed, in those areas? Am I right in saying that?

**Mr CLARK** - We work very closely with Aurora and Aurora provide us, as we do when we go through particularly into the revenue proposal for our capital program, with forecasts on load growth in particular areas and some of the contingent projects that are in our revenue proposal are about those areas where there is potential for increased load growth. We note that in the last revenue proposal there was a couple of proposals - I think one was at Westbury where the load growth is not at that stage where we would make that investment. But it was identified that potentially that could be the case.



**Mr CHALLEN** - Contingent projects are recognised by the Regulator as 'maybe they might happen'. They are not given a tick like the rest of the capital program is. You have to put them through a regulatory test and satisfy the test that the project is needed. But they are sitting there on a list of things that may get done later.

**Mr OXLEY** - Chairman, just to help with that answer and to elaborate a bit. Peter referred in passing to Transend's annual planning report. Here is the latest edition. All transmission companies in the NEM are obliged to produce one of these and the things we would take into account are firstly, the constraints, individual constraints in different part of the network and secondly, the other thing that you mentioned which is population growth or demand increase. So, load forecasting is very much a part of the forward planning process as, indeed, is looking at where there are particular constraints in different parts of the network. So, each year, those things are taken into account in assessing what needs to be done in the years ahead.

**Mr CLARK** - That document is available on our website.

**Ms FORREST** - Just on that point, because it is a matter that was raised by one of the major industry customers - in spite of the fact that this document is produced, they have a criticism, I guess, in that there is not a lot of communication with some of the major industries about its contents - such as what the proposed capital expenditure is. Obviously, Transend has the capacity to move things around if something became more urgent. For instance, if you had a major incident - say a plane ran into a tree or whatever - you would have to shift some resources to deal with that. How do you communicate that to your major customers and a subsequent question to that is -

**Mr GREEN** - Are you talking specifically about the MIs?

**Ms FORREST** - One of the major customers has raised this issue, yes. I am not sure if there is a broad consensus of view on that but I am just saying it has been raised by at least one.

With regard to the five-year planning, the new five-year determination that is due to start soon in 2014, what customer engagement do you undertake in that role because there is a criticism that does not happen either - and I can recommend you visit someone?

**Mr GREEN** - They can talk to me too. I have an understanding of people's view about transmission costs and how that all ought to be weighed but that is quite complex in itself with customer consultation.

[3.00 p.m.]

**Mr CLARK** - I understand and I have had the feedback. I have been involved for 12 months now and one of the discussions I had with the board before I took the role on was about how we work with our customers and over the last 12 months I actively pursued that aspect. So I understand that as a technical business, building infrastructure, we can lose sight of the customer. However, we are actively engaging with the customer. My new asset and customer manager comes from a customer background and he has been actively engaging with customers since he started in that role and as we move into the next revenue period of development, a key aspect of that is ensuring that we communicate with the customers and we work with them as we work through our proposal so that they understand what is in our proposal. Whether they agree with it

or not is a different issue but that they understand and that we engage with them through the development of our revenue proposal.

**Ms FORREST** - These are 16 customers and you will endeavour to be in touch with every one of them personally or make personal contact? I know that Peter has been very proactive in the stakeholder relationship thing, which is good, but it is the customers as well who want to hear what is happening.

**Mr CLARK** - In my first three months of this role I visited all but two of those customers.

**Mr CHALLEN** - It is important to understand that these suggestions that communication could be better are always around. Everybody thinks communication could be better all the time. If you look at what goes on between Transend and our customers at the level of control room to control room or technical person to technical person, these people are talking to each other all the time. If there is a concern - and this was something that Peter and the board were concerned about - it was at the CEO to his equivalents in the bigger customers that we were concerned about and, as Peter has said, he has a specific program in place to address that. When it comes to the next revenue reset there is a very public process for doing that.

We all make submissions to the Regulator. The Regulator will put them on a website and they will invite anybody who wants to, any member of the public or any customer, to make submissions and those 16 customers will all make submissions, and they do. There is no lack of engagement here. This is just a little aspect of the communication that we thought could be improved and we are in the process of improving it.

**Mr OXLEY** - In relation to the annual planning report, we do have an annual program of visiting all our customers and in fact this year we put in an extra couple of sessions, one on the west coast and another one in the north as well as in the south, to make sure that the relevant customers did not have too far to travel to hear about the latest plans as outlined in the annual planning report and, as John said, in relation to the five-year revenue reset proposal, we also make sure that the customers are aware of the time frame, the opportunity to contribute with their own submissions and we also let them know in the run-up to putting in our proposal, the outline of what we have in that proposal.

**Ms FORREST** - Just in the words of one of your major customers: 'Transend representatives are encouraged to visit their customers in the north-west part of the State more regularly. Three or four visits in five years is not satisfactory'.

**CHAIR** - Thank you, Minister. I think at this stage we might suspend for a brew.

**The committee suspended from 3.03 p.m. to 3.23 p.m.**

**CHAIR** - We will resume the hearings.

**Dr GOODWIN** - I will ask a question about the culture of the organisation. It seems from your annual report that you have been doing some work in that space and there is still some more work to be done, so I am wondering what the issues are and what your vision is for the culture of the organisation?

**Mr CHALLEN** - That is a CEO question.

*Laughter.*

**Mr CLARK** - It is certainly my passion. I have been with the business for seven years. We have measured the culture three times now using the Human Synergistics OCI model.

**Mr WILKINSON** - The what, sorry?

**Mr CLARK** - The Human Synergistics Organisational Culture Inventory. For engineers it is a really good model. It has pretty colours that show you where you are. However, the intent is to develop a culture that is more constructive and better represents how we work together.

We did concentrate on that measure for a number of years, however this year I have, with agreement from the board, taken our eye off the measure with a view that we progress the development of our culture with some action. We are presently going through an action that is about how we behave so we are going through a process where we are reviewing the company values and we are about two months into that process now. It was only the other day that the Values Facilitation Team presented to the executive the values for Transend. The view is that we get people working for a culture where we all work in the same direction and we have the same understanding. The business grew over a relatively short period of time and so what was appropriate five or six years ago is not necessarily what the business feels now and we believe that by doing that we can get better engagement and therefore better productivity and more efficient results.

**Dr GOODWIN** - When you talk about needing to be more constructive, what are you really saying?

**Mr CLARK** - Effectively our culture has been very engineering-based and one of the measures in the OCI has been more obstructive in that process and not necessarily helping processes move forward and in that it is about what is the problem and not necessarily how we get over the problem, and we want to move the business around from being an engineering technical solutions business to being a problem-solving business.

**Mr GREEN** - Are you saying as in planners to planning reform?

**Mr CLARK** - Yes.

**Mr CHALLEN** - It is about being customer-focused and looking to help customers solve their problems. It is about being less focused on the insular technical issues and being more commercial about how we do things. This is not to say there is anything wrong with Transend's culture, it is just fine. It is a great organisation and it has a great culture but it is about how we push the organisation up the next hill. You need a way to engage in an organisation to push it up a hill and we are in part engaging the organisation in its culture and its values to try to push it up to the next level.

**Dr GOODWIN** - So your concerns are more about how its relations are with external stakeholders rather than the internal stuff, or are there some internal issues as well?

**Mr CLARK** - I would say that what we want to do is take our business from being a good business to being a great business. We do business well and we get good results. The financial results are good. We have good relationships within the business but how do we move it to being exceptional?

**Mr WILKINSON** - You are a bit like the middle child, aren't you?

*Laughter.*

**Ms FORREST** - Yes, I know all about that.

**Mr WILKINSON** - I agree, yes. When you look at Hydro and Aurora and you have Transend in the middle, how are you recognised - you have to be out there probably to be recognised more than what you are now, is that what you are saying?

**Mr GREEN** - Looked upon with envy, I would have thought.

**Mr WILKINSON** - That is right. If you look at the figures over the last  $x$  number of years, you are to be looked on in envy because of the returns that you have had.

**Mr CLARK** - However, our business is changing. We have just spent a decade building and getting the system up to speed and now we need to turn our business around to add value for that build.

**Dr GOODWIN** - So you had to have that very strong engineering focus on getting things built and now you can add more of a customer focus.

**Mr CLARK** - That is right.

**Mr WILKINSON** - How are you going to do that? You have 16 customers, do you really have to do that because people know that you are a good business, they know that you have been a good business for a number of years and they know that, since GBEs have been going on, the returns of Transend have been up there, if not the top very close to the top, and some might argue why take a winning jockey off a winning horse?

**Mr CLARK** - I think it is actually how do you put a better jockey on a winning horse to win more races. In effect I think the issue is that our customer feedback to us is that we do not engage well with them and I think that was indicated, that we were focused very much on the engineering outcome and the solution but we want them to work with us so that we can provide them with the service they need and, ideally, when we go to our next proposal we will not get knocked back on everything and we will have customer support some of those developments that we put forward. It is not just customers, there are also stakeholders involved and our board and the shareholders. It is a broader spectrum. When we are working in the National Electricity Market we have a national electricity operator who is someone we provide services to. We want to make sure that we can help them get a better outcome. Ideally, if a wind farm comes through the door and wants to develop and we are proactive in helping them with their connection, we get another wind farm connected in Tasmania.

[3.30 p.m.]

**Ms FORREST** - And potentially the seventeenth customer.

**Mr CLARK** - Yes, potentially the seventeenth customer. It is how we can help them grow.

**Mr WILKINSON** - Do you think that can assist in getting extra customers? I know that is a lot harder for you to do than Hydro, but is there the ability to maybe get interstate and overseas so far as a consulting arm is concerned?

**Mr CHALLEN** - No, we will not be doing that. Our board is very focused on core business and core business means transmissions systems in Tasmania.

**Mr WILKINSON** - If you look at the Hydro model with their consulting, it has been very successful for them. We were told today it has been very successful.

**Mr CHALLEN** - I cannot comment on that.

**Mr WILKINSON** - But you are saying Transend would not be involved in anything like that at the moment because it is not your core business.

**Mr CHALLEN** - No, it is not our core business. Our board's business model is 'stick to your core business and do it really well'.

**Mr CLARK** - When proponents come through the door and are looking at developing a connection point of a mine or a wind farm, if we can ensure that we make that relationship as effective as we can and provide them with a positive response, then we do not want to be the blocker of their development, we want to make sure that we can meet their time frames.

**Mr GREEN** - A good example is the connection agreement with Musselroe.

**Mr CLARK** - Yes, we have just gone through a process with the connection agreement with Musselroe. We have done that very quickly. We have taken all the appropriate steps and we approached that with how we could get it to work, not what the technical issues were.

**CHAIR** - Just following on from Jim's question, would Transend have any interest in being involved in a second Basslink cable with a joint-venture partner?

**Mr CHALLEN** - We would be fascinated by it.

*Laughter.*

**Mr CHALLEN** - It is a very hypothetical thing and I think it is a long way out. We would be fascinated by it.

**CHAIR** - I am trying to work out the connotation you are putting on 'fascinated'.

**Mr CHALLEN** - I chose that word because it is technically and commercially interesting but that does not mean it would be a good thing for Transend to be involved in. Transend's involvement would have major impacts on our balance sheet and the State's balance sheet, so the ramifications of it would go way beyond Transend. I think it is a very remote possibility indeed.

**CHAIR** - I asked the question because I asked that question in the Hydro hearing this morning and that was something that had been mooted by a former Hydro chair, Mr Peter Rae, when he was talking about renewables and a second Basslink cable.

**Mr CHALLEN** - There are good ideas, practical ideas and sensible ideas and they are not all the same.

**CHAIR** - I see.

**Ms FORREST** - Just on that point about attracting new customers, how does Transend become aware of potential new customers, such as Venture Minerals or whoever else might be out there?

**Mr CLARK** - They normally knock on our door. We also stay in contact with Mark Kelleher and keep an eye on what is happening in that space so that we understand where these things might occur. It is very hard for us to be proactive and knock on people's doors.

**Ms FORREST** - If you went to Mark Kelleher and he said, 'We're aware of this  $x$  mining interest', would Transend then make an approach or do you wait for them to come to you?

**Mr CLARK** - We would look very closely at what that meant and do the background work so that when they did come to the door we could say, 'This is the type of connection. This is the type of infrastructure you need'.

**Ms FORREST** - This is how much it would cost you.

**Mr CLARK** - Yes. So that we would not be saying, 'Come back in a month's time and we will give you an answer'.

**Mr GREEN** - And/or with the pre-feasibility for businesses thinking about setting up.

**Ms FORREST** - On another point if I might, Chair, I noticed that in your income statement that you have got 'other income'; when you go to the note 2B it gives you the information about other income but it does not tell you any more about other income except that \$10 000 comes from 'other: the other income consists of the following items - income from external work'. Can you just give us a breakdown of what you are talking about here because there is \$15 million there. What does that relate to and are there capacities to grow that?

**Mr CLARK** - We get external non-prescribed income from AEMO for providing operational service in Tasmania. We provide the system protection scheme to Basslink Proprietary Limited for operation of the Basslink cable frequency control and predominantly in the event that it trips. We provide generation contingency control for the AETV generator, effectively similar to the Basslink, so that we can maintain the Tasmanian operating frequency standards in the event that the plant trips. Our telecommunications business provides services to a number of customers, both Aurora and Hydro for their operational and business communications. Also, we have a number of small customers that buy service on fibre. We provide maintenance services for Aurora on the fibre that runs along the gas pipeline. We also do have some income from land easement inquiries, rentals and things but that is quite small.

**Ms FORREST** - Is there any capacity to grow any of those areas?

**Mr OXLEY** - The biggest one, and Peter just touched on it, is the revenue stream from the communications side of the business. Most of that is from other companies that are operating in the local electricity supply industry but some of them, as Peter said, are outside. That is an area that has some more potential.

**Mr CLARK** - As we increase our fibre footprint, then there is potential for capacity on the fibre.

**Ms FORREST** - What else can that be used for? Has it any other capacity?

**Mr CLARK** - We have fibre presently into the west coast and into Queenstown. Some of the communications providers have asked us whether they could rent some space on that because they have not got that infrastructure.

**Ms FORREST** - For internet access and that sort of thing?

**Mr CLARK** - Yes, internet access, et cetera. As the NBN develops, we are keeping a close eye on that space to see whether there are any opportunities in the area. We also provide some facilities, not technology, but facilities and maintenance for the mobile radio network which is used by police and emergency services. They use some of our communications circuits to link their sites in remote areas. There may be opportunities as that grows that we could provide more services in that area.

**Ms FORREST** - You could improve the phone coverage on the west coast for me - and the minister when he is down there.

**Mr GREEN** - People are interested in us completing the network, I have been advised, so potentially there is some opportunity there.

**Ms FORREST** - That begs the question - is that core business getting into that area?

**Mr CHALLEN** - The communications networks are fundamental to our management of the transmission system but because the asset is there, it is a relatively straightforward thing for it to be used for other purposes. It is very much core business.

**Ms FORREST** - Have you got people looking and working on that or does that mean it will probably evolve over time, as opposed to actively looking at the opportunities that could present themselves?

**Mr CLARK** - We do actively look at the opportunities. It is a pretty tight marketplace and there is a lot of competition in that space but we do keep an eye on what the opportunities are. We have a couple of advantages in places such as fibre into Queenstown and fibre up the north-east which others would not necessarily have.

**Mr CHALLEN** - We are not being entrepreneurs.

**Ms FORREST** - You are not going out and looking for business then?

**CHAIR** - Just on staff issues and the Attorney-General's report talking about increasing FTEs in 2007-08 from 210 to 284 in 2010-11, are you projecting any further increases in staff numbers?

**Mr CHALLEN** - No. The likelihood is that staff numbers will move down a little, if anything. The big increase that is referred to there is the result of our buying Hydro's telecommunications business. We have had two things in recent years that have affected our staffing. About five years ago when we went into the national electricity market, we took over responsibility for system controls. So a big group of people moved from Hydro into Transend. Then, more recently, there has been this rationalisation of telecommunications businesses and we bought Hydro's telecommunications business and a whole lot of staff came from there. So they are the two major explanations of the growth in staff. Beyond that, there are a few examples of where the board had made decisions to insource activities that were previously outsourced. So those have all been done on the basis of a business case at the time; so we just swapped, effectively, contractors for our own staff because it was cheaper to do so. But beyond that, there has just been a little bit of organic growth in the business and we are pretty confident that, if anything, we will see a little tail off in staff numbers in future years.

**Mr CLARK** - Staff numbers today are 270. As our capital program winds off, we have been actively not recruiting project managers. So we have allowed a number of positions in that area to move on and we have a program within the business that for every position that comes up, executive members need to review the need for replacement and what opportunities there are to redistribute work or change the arrangements, and any new positions that are proposed in the business come to my table.

**CHAIR** - With regard to staff, are there any HR issues there at the moment, any issues which are causing concern within the organisation with employees at the moment? Have you anything that is outstanding and something which may cause some liability for the organisation down the track?

**Mr CHALLEN** - Nothing out of the ordinary. We have the odd case from time to time that goes to the Antidiscrimination Commissioner. We have had one of those recently and it was satisfactorily resolved. I think there is one open case with the Commissioner at the moment. Essentially we have a fairly settled staff. We do not have great dramas.

**CHAIR** - The one that is open at the moment, is that a reasonably serious one? Is it reasonably significant?

**Mr CHALLEN** - It would be regarded as serious to the employee who has gone there, of course. But, in my view, it does not represent any systemic problem in the business. It is about an individual employee's relationships with the employee's supervisor basically. I have seen lots of these cases over the years and they are all problems between human beings. They are not about the systemic organisational issues and they get resolved. I think the Antidiscrimination Commissioner does a good job of resolving these issues. They work through them in a rather sensitive and sensible way and try to resolve them. In our experience most of these things get sorted out satisfactorily.

**CHAIR** - Any skills shortage issues at the moment?

**Mr CLARK** - Not at this point in time. We know that as we go out and try to pick up engineering skills, then there is certainly a shortage out there in the workplace. We do not have a



problem at this point in time but we do keep an eye on it. We support engineering training through the API, Australian Power Institute - scholarships for engineering students at universities. We have scholarships ourselves that we support in the universities and we support the intake of graduate engineers with normally a couple of engineers annually. But we do have a reasonably high turnover at the moment. We are sitting on about 14 per cent, which is a bit higher than we would anticipate. But the marketplace out there for engineers is pretty hot, particularly in Western Australia, and with the other transmission network service providers because we are recognised as providing excellent training for our engineers. However, that has not caused us major concern. We are keeping an eye on it and trying to ensure that we keep some of the graduate engineers coming in the front end to assist with that.

[3.45 p.m.]

**CHAIR** - Do you take on any apprentices?

**Mr CLARK** - We do not have apprentices.

**Mr CHALLEN** - We do not have any tradespeople on the staff.

**CHAIR** - No tradespeople, full stop.

**Mr CHALLEN** - We do all that through contractors.

**Mr WILKINSON** - Have there been any changes or increased use of underground, as opposed to overhead?

**Mr CLARK** - I would say that we are using quite a bit of underground on the Norwood/St Leonards/Mowbray line because of the nature of where it is going. However, it is much harder to do underground with transmission than it is with distribution. It is much more expensive also to do that, particularly of the high voltages, but that is an area where undergrounding was utilised more effectively than aerial conductors because of the nature of where that line was running.

**Mr WILKINSON** - Where possible, is it a preference to go underground as opposed to overhead?

**Mr CLARK** - It is normally significantly cheaper to go overhead so, where possible, we would do that because it is the best economic outcome for customers who will pay for that at the end of the day.

**Mr CHALLEN** - We do not want to deprive people of the joy of looking at magnificent transmission lines - they are beautiful things.

**Mr WILKINSON** - That is why I mentioned it because a good friend of mine said, 'Can you take those poles and wires away from my view? Just look at the Derwent, it's straight in front of you'.

**Mrs ARMITAGE** - What would the cost comparison be?

**Mr CLARK** - I recently went to South Australia where they were putting in 18 kilometres of underground 275kV cable - I think the cable was around about \$90 million.

**Mr CHALLEN** - For 18 kilometres.

**Mr CLARK** - For 18 kilometres - we put on the Waddamana/Lindisfarne transmission line, dual-circuit overhead, and the whole project was \$129 million.

**Ms FORREST** - How many kilometres?

**Mr CLARK** - 100 kilometres.

**Mr OXLEY** - Take out \$50 million, roughly, for the two substations so 100 kilometres, dual-circuit overhead line, less than the cost of that underground cable for only 18 kilometres.

**Mr CHALLEN** - It is probably 10 times more expensive.

**Mr OXLEY** - It is very expensive to go underground and you would only do that in particular circumstances like that project that Peter said.

**Ms FORREST** - Not for your view, sorry.

**Mr WILKINSON** - It wasn't my view but I will tell him. I have a good answer now to give to this fellow.

**Mr CHALLEN** - Where does he live?

**Mr WILKINSON** - He was in Churchill Avenue.

**Mr CHALLEN** - It would not have been any of ours then.

*Laughter.*

**Mr CHALLEN** - I thought you were going to say he lived in the Margate area.

**Dr GOODWIN** - I was going to ask about your safety performance. This last financial year you had a couple of high-risk injuries. I was wondering if you could talk a little bit about that and also tell us how you are tracking this financial year.

**Mr CLARK** - I would like to open up by saying we track safety, not just for our own staff but also our contractors. There have been some safety incidents and we work very closely with the contractors. We have gone through a period of very high activity with the Waddamana/Lindisfarne transmission line. It was a significant development and there was a lot of activity on that line. However, with the contractor we have very good safety performance on that.

We have had a couple of serious incidents which were of concern. We had one up at the Butlers Gorge area where a contractor slipped. Because of the location of where he was working, he fell back onto a stump and broke a rib and punctured his lung. These types of events are very regrettable and we work with the contractor to work out why it happened, what can we do. In that case it was actually moving the piece of apparatus - it was worked onto a better standing area so that those things do not occur.

We do a large number of safety audits so our safety officers go out there and audit safety performance and pick up those issues of non-compliance before they occur. We had an incident recently where one of our contractors pulled up another contractor for a safety issue within our yard. That goes to show that we were starting to get there with the safety message when a contractor will take on another contractor in our infrastructure.

**Dr GOODWIN** - So you are tracking okay with finances in terms of the high risk.

**Mr CLARK** - Yes, high-risk injury events. We have actually got the measurement to the last month in our annual report here today. They have a monthly report.

**Mr CHALLEN** - The board gets a report on safety and indeed environmental issues every month. This year, year to date, we have had no major safety incidents. We have had one moderate and 12 minor ones.

**Ms FORREST** - How do you classify mild, moderate and severe?

**Mr CLARK** - A serious event is when it is effectively similar to lost time. Effectively you have to -

**Ms FORREST** - Seek medical treatment.

**Mr CLARK** - It is reportable. There are criteria for reporting to Workplace Standards. Those incidents stand out predominately. Moderate is when we have an event which caused an injury but does not mean that you leave work. Minor is when you might have a small cut.

**Mr CHALLEN** - A minor incident could be no injury. I have a report in front of me for the last month, and I will read it to you if I may. This happened at the Palmerston substation where there is an upgrade project going on. The report reads: 'An apprentice, employed by a contractor, was observed working from an unrestrained timber pallet approximately 3 metres above ground level. The pallet had been placed on a tele-handler, which is similar to a forklift, and was being used to provide access to the top of a disconnecter. The apprentice was not wearing a safety harness to arrest him in the event of a fall. The asset officer who observed this unsafe work practice instructed the apprentice to cease the activity and reported the matter as an incident.'

So that is one of those 12 minor safety incidents. Nobody was hurt. Nothing happened, but somebody saw something that had the potential for someone to be injured and it has to be reported. We are very focused on safety. I must say one of the things that impressed me when I took over as Chairman of Transend is just how well they do safety and environmental issues. It is just really very well done. This is deep in the culture of the place. We are not going to take any chances with people's safety.

**Dr GOODWIN** - What are the environmental issues that you are dealing with?

**Mr CLARK** - We have excellent environmental performance. We have a lot of environmental risk particularly with the types of oil and transformers et cetera. We have got systems and processes in place where AS, or whatever it is, certified for our environmental systems. We have not had any environmental incidents this year. We had a good environmental performance last year as well. We actively manage both environment and safety.

**Mr CHALLEN** - It is things like oil leaks and gas leaks; it is those sorts of things. They are not dramas. They are all terribly minor things. We have people worry an awful lot about a bit of oil sloshing around the place that in the end gets cleaned up.

**Mr CLARK** - As far as vegetation management and threatened species are concerned, we keep a very close eye on our easements to ensure that we meet all the legislative requirements.

**Mr CHALLEN** - Weed management.

**Mr CLARK** - Yes, weed management.

**Ms FORREST** - You deal with your weeds, do you?

**Dr GOODWIN** - We all deal with weeds.

**Mr CHALLEN** - We have to manage weeds in our easements. For bushfire management we have to keep the easements clear and of course when you clear ground you have to worry about weeds.

**CHAIR** - Okay members, any more questions?

**Dr GOODWIN** - On page 15 of the annual report your outage optimiser gets a pretty good rap and I am just wondering whether there are any commercial opportunities as far as that goes. It sounds fantastic.

**Mr CLARK** - There is probably a limited number of customers. The benefits of that development have been the economic efficiencies that we have been able to achieve in our own operations, in being able to align our outages with our customers' outages and also align those outages within the business between the different parts of the business. It has been a real benefit. Other transmission network service providers have talked to us about the way we have done this, but putting a commercial value on it would be extremely difficult.

**Dr GOODWIN** - Did you develop that completely in-house?

**Mr CLARK** - Yes.

**Dr GOODWIN** - Very good.

**Mr CHALLEN** - This is something that has been good for our 16 customers as well because it has allowed us to organise our outages of equipment at the same time that they are doing an outage. So we do not put them out because we have to do some work at a different time and they take themselves out anyway. It is a very good thing.

**Mr CLARK** - This particular project we have a biannual Chairman's award for efficiency in the business and this particular project won that this year.

**Mr GREEN** - What was the award?

**Mr CLARK** - The award is a trophy and -

**Mr CHALLEN** - A little glass trophy. But it gets presented by the Chairman.

*Laughter.*

**Mr CHALLEN** - The winning team gets a prize in the form of access to some extra training budgets. And a glass trophy.

**Dr GOODWIN** - I do not know if you have already covered this but you talk about some improved project management practices which have helped you bring in capital works projects on time and on budget. Can you elaborate a bit on that?

**Mr CLARK** - The one that we put in place is called the PID project. It is a project from implementation to development. What it really is about is making sure that people understand where they sit within the project and what are the hand-offs. One of the key measures behind it was called this RACI model - who is Responsible, who is Accountable, who should be Consulted with and who should be just Informed. That was a significant agreement made through the project.

**Mr GREEN** - Racing?

**Mr CLARK** - RACI. That puts a focus on deliverables through the projects. It is a relatively large capital program, if you consider that a decade ago \$60 million would have been a really big capital program and last year it was \$130 million. Ensuring that we move those projects through needs quite a bit of discipline and inside that there is a whole process of making sure that we report behind that so that the responsible people report on their performance and their hand-offs as we move through that program.

**Dr GOODWIN** - I suppose the proof of the pudding is in the eating.

**Mr CHALLEN** - It is, but 93 per cent of the projects on time, within budget is pretty good.

**Dr GOODWIN** - That is pretty good.

**Ms FORREST** - Greg, I wanted to ask a broad question. We talked at the outset about the high level of debt and you have explained that it is quite manageable and it does not have a detrimental impact on your cash flows. What would be the major risks to Transend and their cash position and the ability to meet their debt repayments and that sort of thing?

**Mr CHALLEN** - The biggest risk is a poor regulatory outcome in the next revenue reset period. A long way behind that would be some international event that drove interest rates up very rapidly - though that would not impact on us in the short run because all our debt is locked away until the end of the current revenue reset period.

**Ms FORREST** - All yours is with Tascorp?

**Mr CHALLEN** - Yes. They would be the two biggest risks.

**Ms FORREST** - No disrespect intended here at all, but as Chairman on both boards, is that an issue at all?

**Mr CHALLEN** - No, not really. I declare it obviously on both boards, once I have had to exclude myself from the Transend boardroom while a decision was taken that had a minor impact on Tascorp but it does not happen very often. At the Tascorp end there are no issues. Transend just gets treated like any other customer.

**Ms FORREST** - So you have a variety of loans that are different from the fixed rate, is that what you said?

**Mr CHALLEN** - Transend has a collection of about 10-12 individual lines of debt to Tascorp that all mature on or around 30 June 2014 when we get to the end of the revenue reset period.

This is standard practice for regulated businesses like Transend. When the Regulator makes his determination about your revenue for the reset period, implicit in that is a cost of debt and the big risk is that your actual debt cost over the five years will be different or higher than the implicit debt cost the Regulator has embedded into the revenue reset, so what transmission and distribution companies for that matter typically do is that as soon as the revenue determination is known they lock their debt in for the five years of the reset period.

[4.00 p.m.]

If we were a privately owned business, this would create a very significant refinancing risk and when you have \$500 million worth of debt and it all comes up on the same day, that is not something you would do but Tascorp, because of its much bigger portfolio - Tascorp has a \$5 billion portfolio -

**Ms FORREST** - And managing it very well, I think.

**Mr CHALLEN** - Brilliantly actually, it is funny that you should ask.

**Ms FORREST** - No, I went to the annual report of Tascorp.

**Mr CHALLEN** - Tascorp can manage this \$500 million without too much drama and Tascorp has specific ways of doing that. It is one of the benefits for Transend of being in the government family, as it were, you do not have to worry about this refinancing risk around our debt.

**Ms FORREST** - With the regulatory reset obviously there could be a change and there would be a change of some sort, I expect, but that is one of the risks and, depending on the outcome of that, could you see some changes that would increase your guarantee fee payments, or decrease them, to the Government?

**Mr CHALLEN** - The guarantee fee is mainly driven by the difference in Transend's credit worthiness relative to the Government's credit worthiness so that over time, as our gearing level goes up, it is possible that the guarantee fee might go up a smidgen but I suspect it will not happen because there will not be enough movement in gearing to have any impact, but it is possible that that could happen but that would be a rather small thing in the scheme of things. Transend, as a regulated transmission business, is pretty low-risk so stand alone we would have quite a high credit rating - not as good as the Government's but we would be up there.

Transmission companies typically rate as high single As to low AAs, whereas the Government at the moment is AAA or AA+, but a generation company might be a BBB+ or a BBB- because they are in a much riskier business with much more volatile revenue. Guarantee fee is not a big thing for us in the scheme of things because we are not too far from the Government's own rating.

**Ms FORREST** - Are there any other risks then beside those two that you are saying?

**Mr CHALLEN** - In terms of financing they are the two main ones and, as I say, if it were not for the fact of our government ownership and our benefits of being able to borrow through Tascorp, we would have refinancing risk as a big one but we do not have that.

**Ms FORREST** - What about a situation like a major bushfire in an area where you have significant infrastructure?

**Mr CHALLEN** - Sorry, you are talking about risks in general?

**Ms FORREST** - Yes.

**Mr CHALLEN** - Sorry, I thought you were talking about debt management.

**Mr GREEN** - Part of what we have been doing is all about risk mitigation in that regard.

**Mr CHALLEN** - The business has a very structured approach to identifying, managing and mitigating the risks and yes, bushfire risk is one of them. Obviously we manage that through vegetation control, the width of easements and managing the clearances of transmission lines above the ground.

**Mr GREEN** - Being able to seek alternative routes for the electrons to travel effectively.

**Mr CHALLEN** - Indeed, that is a significant concern. Obviously we are concerned to have access to easements over land that is the most cost-effective way to connect point A with point B and there are things going on -

**Ms FORREST** - That brings me to a point that I raised in a speech a little while back, which is that proposed developments into the north-west of the State, mining or other but particularly mining at the moment, if there were a national heritage listing of the area, what impact could that have as a threat? If you have to go right around the long way, is that a potential issue of meeting customer need? It is more risk to the customer perhaps than to you but I do not know.

**Mr GREEN** - We are onto that.

**Ms FORREST** - I am pleased to hear it.

**Mr GREEN** - Any discussions in that regard have to take into consideration the commercial needs of Tasmania into the future and we are making sure that we have the appropriate overlays with respect to potential -

**Ms FORREST** - Do you admit that could be an issue for getting infrastructure or upgrading infrastructure beyond the point and that sort of thing?

**Mr GREEN** - We are actively thinking about that in the work that we are doing on any potential reserves that might occur.

**Mr CLARK** - With respect to bushfires, we had our bushfire plans audited by Marsh Risk Consultants and they indicated to us that we are doing everything we reasonably can to manage and mitigate our risk from bushfire.

**Mr CHALLEN** - Probably the biggest risk for businesses is equipment failure. That is mitigated by the whole construct of the national electricity rules where there is built-in redundancy in minus-one arrangement in the system where you design your system so that if one piece of equipment fails the system can still operate uninterrupted. Peter was talking earlier about the two transformers at St Marys and concerns about what happens when you get those short periods of peak loading. That is an example of where we have had to go to the Regulator to get an exemption from the normal redundancy arrangements because it is too costly to put in something that will give us genuine minus-one redundancies. The whole structure and management of the system is all around minimising the impact of equipment failure.

**CHAIR** - Minister, thank you very much for your indulgence, and to all your people around the table, thank you very much.

**Mr GREEN** - I pass on my personal thanks to those people in Transend who have completed the work to allow us to present to you today, including the Chair, Don Challen, Peter Clark, Paul Oxley and all those people who assisted them through that process.

**The committee adjourned at 4.07 p.m.**