



2011

**Legislative Council**

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# **Government Businesses Scrutiny Committee 'A' 2011**

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## **Final Report with Minutes of Proceedings**

Members of the Committee:

**Hon Rosemary Armitage MLC**

**Hon Ruth Forrest MLC**

**Hon Vanessa Goodwin MLC**

**Hon Greg Hall MLC (Chair)**

**Hon Paul Harriss MLC**

**Hon Jim Wilkinson MLC**

**LEGISLATIVE COUNCIL**  
**GOVERNMENT BUSINESSES SCRUTINY COMMITTEE "A"**  
**MINUTES**

**Wednesday, 7 December 2011**

At 8.45 am in Committee Room No. 2, Parliament House, Hobart.

**Present :** Ms *Armitage*, Mr *Hall*, Mr *Harriss*, Ms *Forrest*, Dr *Goodwin*

**In Attendance:** Mr Tom Wise (Secretary)

**Minutes:**

The Minutes of the meeting held on Tuesday 6<sup>th</sup> December 2011 were confirmed as a true and accurate record.

[Mr *Wilkinson* took his seat at 8.50am)

The Committee suspended at 8.51am  
The Committee resumed at 9.00am

**Public Hearing:**

**HYDRO TASMANIA**

At 9.00am the following witnesses appeared before the Committee:

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

**Ministerial Office**

**Mr Gary Swain**, Head of Office

**Hydro Tasmania**

**Dr David Crean**, Chairman of the Board

**Mr Roy Adair**, Chief Executive Officer

**Mr Lance Balcombe**, Chief Financial Officer

The Committee suspended at 10.30 am  
The Committee resumed at 10.50 am

**Additional Information Requested:**

- Expenditure on external legal fees, consultants and travel (see pp. 36-37 of the Hansard transcript);
- Discussions with Forestry Tasmania on biomass electricity generation (see pp. 38-39 of the Hansard transcript);
- Near-miss safety events over the past five years (see pp. 42-43 of the Hansard transcript).

The witnesses withdrew at 12.02 pm.

The Committee met in closed session to consider the evidence.

The Committee **RESOLVED** to note the following matters:

- In 2010-11 Hydro Tasmania produced net revenue of \$813 million, held assets worth \$5.5 billion and achieved a profit of \$100 million.
- The Company returned \$52 million to Government, including dividends of \$26 million.
- Last financial year the Company achieved \$13 million in operational savings, which included a reduction of 50 in its total workforce.
- It is proposing to spend \$50 million in coming years on upgrading its IT systems.
- Hydro Tasmania has announced it will proceed with construction of the Musselroe Wind Farm, with the aim of eventually selling a 75 per cent interest in the project.
- The Company is in the final stages of a similar 75 per cent sell-down of its current ownership of the Woolnorth Wind Farm.
- After completing both sell-downs the Company expects to be carrying a total debt of approximately \$800 million.
- According to Hydro Tasmania, the Musselroe Wind Farm site is among the top 10 in the world.
- At least eight Tasmanian businesses will share in approximately \$75 million worth of contracts associated with the Musselroe project.
- The Company believes that it faces very little risk exposure through the construction of the Musselroe Wind Farm and that there is already significant investor interest.

- The expansion of renewable energy capability through the Woolnorth and Musselroe Wind Farms will not reduce energy costs to Tasmanian retail consumers.
- The construction of the Woolnorth and Musselroe Wind Farms provides Hydro Tasmania with valuable Renewable Energy Certificates (RECs) which will become even more significant with the introduction of the Federal Government's carbon tax.
- The Company also stands to gain significant carbon tax benefits as a result of improved water storage levels from increased rain in the past two or three years.
- Current water storage levels are around 58 per cent, up from a low of around 17 per cent at the height of the recent 10-year drought.
- Water storages are being maintained above the usual 50 per cent optimum level to allow the Company to achieve maximum benefits from the introduction of the carbon tax.
- The recent higher rainfall has also helped improve the financial performance of Hydro Tasmania in the past two or three years.
- Last financial year the Company exported 1311 gigawatt hours of energy and imported 1095 gigawatt hours of energy over the Basslink cable.
- During the current financial year Hydro Tasmania has been importing power at lower prices over Basslink, effectively "banking" the water in storage to enable export at higher prices when possible.
- In the past two years Hydro Tasmania's retail arm, Momentum, has grown from supplying 500 gigawatt hours of energy to customers in mainland Australia to supplying almost 5000 gigawatt hours last financial year.
- Last financial year Momentum recorded a profit of \$1 million and is on track to record a \$5 million profit this year.
- The Company is confident that over the next five to ten years Momentum will deliver annual profits of up to \$100 million.
- The major strategic aim of Momentum is to protect Hydro Tasmania's position within the national wholesale energy market and to remain competitive with the larger mainland Australia generators.
- Momentum currently holds 2.5 per cent of the national electricity market, with the Company aiming to build that market share to 10 per cent.

- Through a demonstration project on King Island, Hydro Tasmania expects to be supplying 70 per cent of the Island's energy need from renewable sources.
- Entura, the consulting arm of Hydro Tasmania, employs 300 people and has offices in Hobart, Melbourne, Brisbane and New Delhi.
- According to the Company, only seven per cent of the hydro-electric energy potential in Africa has been tapped so far, with the figure for Asia and South America being 31 per cent.
- Last financial year Entura recorded a profit of more than \$100,000 and the expected profit for this year is \$2.1 million.
- The improved financial performance of Entura follows a loss of \$4.5 million in 2008-2009 as a result of the Global Financial Crisis (GFC).
- Since that time Hydro Tasmania has implemented a five-year plan to set-up Entura as a stand-alone business that operates on a fully commercial basis.
- The Minister for Energy advised that the State Government has no plans to divest Hydro Tasmania of any entities owned by the Company.
- While many details remain uncertain, Hydro Tasmania believes it could gain a potential benefit of between \$40 million and \$100 million as a result of the introduction of the Federal Government's carbon tax.
- The Minister for Energy advised that the State Government will make decisions on the use of that financial benefit in the best interests of Tasmanians overall.
- However, the Minister did concede that there is potential for the financial gains made from the introduction of the carbon tax to be used to help address Tasmania's current difficult budgetary situation.
- The Company believes Hydro Tasmania, if it were a publicly listed company, would be in the top 50 on the Australian Stock Exchange.
- A key strategic target for Hydro Tasmania is a credit rating of BBB and it is confident this can be achieved in the short term. The current credit rating is BBB-.
- The Company believes that any increase in the current 70 per cent dividend requirement would affect its overall sustainability and impact on its 10-year asset management plan and its credit rating target.

- Hydro Tasmania provides 7 per cent of non-Federal Government funding to Tasmania.
- A second Basslink cable is not under consideration and will not be for the foreseeable future.
- Last financial year the facility fee paid by Hydro Tasmania for the Basslink cable was \$79 million.
- A major strategic goal for Hydro Tasmania is to de-risk the business and it is operating Momentum, Entura and its water storages in keeping with this goal.
- As a result of this de-risking strategy, the Company does not believe it would face a significant negative impact if it lost one of its major industrial customers.
- Two key influences on the future operation of Hydro Tasmania are the imminent report of the Tasmanian Government's Electricity Supply Industry Expert Panel and determinations to be made by the Australian Energy Regulator in 2014.
- The average wholesale price of energy 10 years ago was \$36 a megawatt hour and the average wholesale price last year was also \$36 a megawatt hour.
- Over the past eight years wholesale energy prices, as a component of the total end retail price, grew by 30 per cent; over the same period transmission and distribution costs grew by 60 per cent.
- Hydro Tasmania workplace safety data shows a significant fall in near-miss and hazard reports over the past two financial years, although it is unclear whether this represents a major improvement in workplace safety or increased reluctance by workers to report near-misses or workplace hazards.

The Committee believes Hydro Tasmania is a well-run Government Business, with clear goals and a well-defined strategy to achieve those goals. It has potential to make significant financial returns to the Tasmanian people over the medium to long term.

The Committee suspended at 12.40 pm

The Committee resumed at 1.30pm

## **TRANSEND NETWORKS PTY LTD**

The following witnesses appeared before the Committee:

**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 suspended at 3.03 pm  
The Committee resumed at 3.23 pm

The witnesses withdrew at 4.07 pm.

The Committee met in closed session to consider the evidence.

The Committee **RESOLVED** to note the following matters:

- In 2010-11 Transend produced a before-tax profit of \$67 million and returned a dividend of \$26 million.
- The Company believes that dividends will remain relatively stable over the next decade.
- Transend currently manages an asset base valued at \$1.5 billion.
- The Company currently employs 270 people and has a staff turnover rate of 14 per cent, which it attributes mainly to the high demand for engineers in the mining industry and within the electricity transmission sector.
- During the past financial year the Company spent around \$130 million on various capital projects, including the completion of the major Waddamana-Lindisfarne upgrade.
- The Waddamana-Lindisfarne project, the biggest project carried out to date by Transend, was completed on time and within budget.

- In all, 93 per cent of Transend projects are completed on time and within budget, which has been largely attributed to improved project management practices.
- Capital expenditure next financial year is expected to be around \$121 million and \$136 million in the following year.
- Transend expects capital expenditure to fall to around \$76 million in 2013-2014 and remain around that level in subsequent years.
- This projected decrease in capital expenditure follows a 10-year period of significant spending to bring the transmission network it inherited in 1998 up to a standard where it was fit for service.
- However, the Company did note that transmission network assets generally have a 50-year life span and that further major capital expenditure would be required in the next half century.
- The Company believes that this eventual reduction in capital expenditure could help minimise increases in the transmission and network components of retail electricity prices.
- The Company is confident that it will not be a big contributor to electricity price increases in future and is aiming to keep its impact on electricity prices to below the level of increases in the Consumer Price Index (CPI).
- Transend says that over recent years it has re-positioned itself from being a relatively high-cost, low-reliability system to a relatively modest-cost, high-reliability system.
- The Company proposes to increase borrowings by \$68 million this financial year and by a further \$100 million for the remainder of the current regulatory period which ends on 30 June 2014.
- The increase in borrowings is linked to an annual \$20 million equity withdrawal that provides an equity transfer to Tasmanian Railway Pty Ltd (TasRail).
- The increase in borrowings is a deliberate strategy to move the Company to a higher level of gearing over the next eight years, which will bring it to a level more typical among electricity transmission companies.
- The Company believes this strategy is low risk and will not impact adversely on working capital, although the Auditor-General has expressed concerns about the longer term impact of the proposed debt-to-equity ratio increases.



- The Company operates an optical-fibre communications network as part of its transmission system and sees some potential business opportunities in this asset in future.
- Transend recorded three serious outages in 2010-2011, all of them being on Hobart's Eastern Shore.
- The Company has acknowledged that it has not been able to identify the precise cause of the most significant of these outages which occurred at the Rokeby sub-station and lasted for several hours.
- The Company believes the expectations of consumers and the energy regulator have substantially increased in relation to the reliability of the electricity transmission network.
- Transend is not a carbon-intensive business and the Company does not believe the Federal Government's carbon tax will have a significant impact on its financial performance.
- The Company faces a number of financial and operational risks over the next decade.
- The key financial risk is the next regulatory re-set which will occur in 2014, although the Company believes it is well-placed to manage the outcome of any regulatory changes.
- The risk of the loss of one or more of Transend's sixteen customers, particularly a major or significant customer, poses a significant financial risk to Transend.
- The Company believes there is little that it can do, apart from keeping transmission costs as low as possible, to manage the risk of losing one of its major customers.
- Another financial risk would be a significant increase in interest rates over a short period, although the Company believes this would have a longer term impact if it occurred.
- The biggest operational risk, and one that would also have a financial risk, is equipment failure, although built-in redundancy arrangements are designed to minimise the likelihood of major outages.
- In coming months the potential for major bushfires is also a risk to Transend, although vegetation management and an audited bushfire plan are designed to mitigate this risk.
- Transend is undergoing a program of change to its corporate culture, to shift its focus away from the traditional technical and engineering culture to one that is more customer focussed.

- Given the nature of the high-voltage environment in which it works, the Company has a very good workplace safety record, with no major lost-time incidents in the current year.

The Committee believes that Transend Networks Pty Ltd is a well-run and profitable Government business that should continue to perform strongly into the foreseeable future. It has a clear focus on its core business and should continue to provide significant financial returns to the Tasmanian people.

### **Recommendations:**

The Committee **RECOMMENDS** that:

- Transend Networks Pty Ltd develop a comprehensive risk management strategy to cover the loss of one or more of its major customers.

### **Next Meeting:**

The Committee **RESOLVED** to meet again at a time and place to be advised.

### **Adjournment**

The Committee adjourned at 4.40 pm

**DATE:** 15 December 2011

**CONFIRMED**



**CHAIR**