

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

IN ATTENDANCE

Hon. Bryan Green, Minister for Energy and Resources

Ministerial Office

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

Hydro Tasmania

Dr David Crean, Chair
Mr Roy Adair, Chief Executive Officer
Mr Lance Balcombe, Chief Financial Officer
Mr David Jeffrey, Manager Government Relations

The committee met at 9 a.m.

CHAIR (Mr Hall) - Welcome, Minister. I invite you to make an opening statement.

Mr GREEN - Firstly, I would like to congratulate Hydro Tasmania for another successful year in 2010-11, being the most successful since the aggregation of the former Hydro-Electric Commission in 1998. In 2010-11, Hydro Tasmania is a business with assets worth \$5.5 billion and a net revenue of \$813 million. A profit of \$100 million was achieved, which is as a result of a better water storage situation, increased sales and responsible financial management. All areas of

its consolidated business, including the retail business Momentum and the consulting business Entura, have recorded a profit in this year. Hydro Tasmania returned \$52 million to the Government in 2010-11, including dividends of \$26 million. Capital expenditure was \$64.3 million for the year, with Catagunya and Poatina being the focus of the capital investment in the past year.

Yesterday I joined the Premier and the Chair, the CEO and other members of staff from Hydro to announce the \$400 million Musselroe wind farm set to be constructed. The project will deliver a number of jobs here in Tasmania and opportunities for local businesses. It is a real confidence boost for the north-east of the State. I was there yesterday and they were very pleased that we have announced the project is going ahead.

CHAIR - Was it blowing? Was there any wind?

Mr GREEN - I made that comment to the CEO yesterday when we all arrived. He said, 'It's a beautiful day for the announcement' and I said, 'The only trouble is, Roy, the wind's not blowing'. Other than that, it was perfect.

Mr ADAIR - That was because we were seeking to bank the non-wind days and that was appropriate.

Mr GREEN - Looking forward, the Federal Government's carbon tax will commence on 1 July 2012 and, while we still do not know with certainty the extent of the benefit to Hydro Tasmania, we have realised from a price on carbon that we are confident it will demonstrate a true value of Hydro Tasmania and the State's investment in renewable energy over the past 100 years. In other words, we will finally get full value for that investment.

Further, the expert panel is set to publish its draft report next week. A lot of time and effort has gone into this up to this point in time, including from Hydro Tasmania and other government-owned electricity businesses. So we await that report. The Government will carefully and thoroughly consider the panel's work when it becomes available and will look for opportunities that exist as a result of the report being made available to us. We will continue to work to ensure that electricity bills are as low as they sustainably can be while maintaining energy security. We will talk about that to a greater degree later on. We want to continue to increase the efficiency and effectiveness of the government businesses and we also want to take the best opportunity we possibly can to maximise the value of Tasmania's carbon advantage and brand benefits from being the clean energy State.

Finally, in this public forum I would like to acknowledge the board of directors, chaired by David Crean and Roy Adair and all of his team at Hydro Tasmania, for doing such an outstanding job this year.

Dr CREAN - It is good to be here again. I will give the committee a bit of a synopsis on Hydro Tasmania, which is coming along very nicely as a business. We have had a strong financial performance over the last couple of years. We have increased our gross profit to \$100 million this last financial year, on top of the \$73 million in 2009-10. In both of those years we have produced a net operating cash position of above \$160 million and our net debt, once we have the 75 per cent sell-down of Woolnorth and similarly with Musselroe, will settle at around \$800 million and, of course, this financial strength has underpinned solid returns, increasing returns to the Government. Last year we returned \$52 million and this year it will be around

\$120 million and we expect it to grow to around \$200 million within the next five years. This improving financial position has basically been on the back of fair-to-good rainfall, but not exceptional rainfall when you look at the past averages that we used to get, a much more efficient organisation and, importantly, our growth in the mainland market through our wholesaling and retailing opportunities.

Basslink is very important to Hydro Tasmania and once again it has demonstrated its value. As you would be aware, in the early years, the first three years of operation from 2006, it demonstrated its drought-proofing capability keeping the lights on in times of drought where we were importing to sustain the energy market in Tasmania. But over the last two years it has demonstrated also its financial benefit where we have been exporting to the market at high prices and importing at low prices. Last year we were able to export 1 311 gigawatt hours and we imported 1 095 gigawatt hours.

Our retail arm Momentum, which was purchased several years ago, has enabled Hydro to derisk basically its wholesale market in the National Electricity Market and to be more competitive with the vertically integrated generators in the national market and over the last two years this business has grown significantly. When we purchased it, it was accounting for less than 500 gigawatt hours to customers in the national market and after two years of operation under Hydro Tasmania that has grown to nearly 5 000 gigawatt hours supplying customers on the mainland.

As you would expect with any rapid growth phase in a business like this, there are increased costs for sales as you are growing but even in spite of that last year returned a gross profit of close to \$1 million and we are on track this year to record a profit of around \$5 million. We are confident that over the next five to 10 years this business can deliver up to \$100 million profit annually.

The other important area of Hydro Tasmania that the minister referred to is Entura, our consulting arm. Entura employs some 300 people. It has offices in Hobart, Melbourne, Brisbane and New Delhi. It has contracts throughout Australia and in Asia and it returned a profit this year and we expect that to continue. Its other importance is that it provides in-house services to Hydro Tasmania but if you look at the history and what we are doing now, greater than 50 per cent of our work is outside Tasmania and about 20 per cent of the aggregate is overseas, and when I say outside of Tasmania that is not within Hydro compared to outside Hydro because we still have work through other companies in Tasmania so there is less work within Hydro but nevertheless it plays an important part in our in-house activities.

Entura consults in hydro-power engineering, in dam design, in renewable energy and water management and recently it has taken up opportunities in remote area power supply. As you know, Hydro Tasmania is doing a demonstration study on King Island testing multiple renewable sources and multiple renewable technologies to increase renewable penetration into the grid. We will be providing something like 70 per cent of King Island with renewable energy. Ten years ago it was 100 per cent greenhouse-gas producing diesel and we will demonstrate a number of technologies. We will be able to translate this model to any remote area in Australia or throughout the world and it can be a combination of any renewable source. For example, we are applying this at the moment with the new contract in Sarawak, Malaysia, for a mini hydro and we have some opportunities in Southern Africa as well in this respect.

It is potentially a very large market. Some 2 billion of the world's population, mostly in Asia, South America and Southern Africa are without power. Many more have limited power and it is greenhouse-producing diesel. This is about introducing new power but displacing greenhouse-producing diesel as well. So it has an important social aspect as well as a commercial aspect to it.

Finally, our wind development strategy. The model that we are using with our wind development strategy is that Hydro is interested in the power purchase agreement and renewable energy certificates attached to that. We are involved in the construction, the management and maintenance of wind farms, but we are taking a smaller equity stake in future wind farms. As you recall, with Woolnorth, originally it was 100 per cent on Hydro's balance sheet. We sold it down in a 50 per cent joint venture. You have seen recently the announcement of Musselroe and we are in the final processes of the 75 per cent sell-down of Woolnorth, Bluff Point and Studland Bay and that is consistent with our model and that is the model that we will be pursuing as we go forward. Our strategic intention is that we want to develop another 700 megawatts of wind to 2020 to back our retail growth through Momentum.

So that is Hydro in a nutshell and I am very happy to take questions.

CHAIR - Thanks, Dr Crean and Minister. I suppose what we might do as a committee is to have some general overview-type questions first before we drill down into the financials.

Given that the State is facing some significant financial problems at the moment, is it not tempting for the Government to be looking at divesting some of these energy entities, either one or more of them, given that most other States have gone down that track? You might care to explore that for a moment, if you would.

Mr GREEN - The short answer to that is no. What we are looking to do is to ensure that businesses are on a strong, sustainable and viable footing. I have great confidence in the leadership that we have in all our energy businesses. I know that we are in a position now where we have the expert panel looking at businesses in terms of their structure and particularly with the cost of electricity in Tasmania now, as it stands.

I would ask the committee to remember - and I am starkly reminded of it once again with respect to the water storages that we had through the earlier part of this decade - that the concentration of the State - and I think we all agree on this - has been to make sure that we ensure that Tasmania has a strong energy security position. Most of the decisions we have made in the past have been about ensuring that we do have energy security so that when you flick the switch the light does come on.

[9.15 a.m.]

There has been a change in focus over recent times. Of course, we have had quite a bit of rain which has changed the scenario to a fair extent - a positive scenario from Hydro's perspective - but overall it has meant that the focus has shifted now to electricity prices and we have a panel which is going to report not to Cabinet or to the Government but to the Parliament with respect to how the energy businesses are structured. That is what we are concentrating on at the moment. We will look at what the panel has to say with respect to the structure of the energy businesses in the State.

CHAIR - To follow that up, the Premier said on 19 June, when she talked about not divesting core assets, that she would not rule out the sale of non-core assets within those entities. Things

like Entura and, as Dr Crean mentioned a minute ago, the possibility to sell-off some of those entities within the -

Mr GREEN - Yes, and I will ask the Chairman or the CEO to comment on this. The business model that has been established by Hydro Tasmania is one of effectively drought-proofing itself. That is, when we have dry years there is the ability to earn in a different phase. From a marketing point of view, it is serving Tasmania quite well. I think the Premier was asked specifically about the Tamar Valley Power Station where it had been suggested that it could potentially be sold in the future. I think that might have been what she was referring to at that time. Certainly at this stage we are not looking to divest.

CHAIR - Just having a look at Entura, which is the old Hydro consulting, and Dr Crean mentioned it employs some 300 people now, I notice that it has a separate board and I could not find who the members were. You might be able to table the names of those people for us.

Dr CREAN - Sure.

CHAIR - The question is, having established that board, that puts a thought into my mind of it being a separate entity. Therefore it may well be up for grabs at some stage. You may well divest that.

Mr GREEN - It is certainly not in our thinking. The fact is that in recent times the management of Hydro have looked to make sure that they finetune those businesses as best they possibly can. We are looking at overseas opportunities and I think that they effectively reflect on what the Chairman talked about, particularly with remote power opportunities. We have an enormous amount of expertise. Remember that we have a 100 years' worth of experience with respect to renewable generation. It is something that can potentially be a good earner for the State.

Dr CREAN - To sell or not to sell is a policy decision for government, so I do not want to comment on that. What I do want to say is that different components of our business do contribute in different ways. The first thing about Entura is that you would not get a great deal on the market and you would lose the value to Hydro Tasmania in its in-house activities and promoting the brand. This is a significant organisation which promotes not only Entura but also the Hydro brand. That is why if you look at the brand strategy you will see with all the businesses, Hydro Tasmania, Momentum and Entura, they have the same logo but a different colour. In promoting one you are promoting all. But Entura specifically promotes the Hydro brand internationally and nationally.

Regarding Momentum, we did not go into Momentum to create a new business. We went into Momentum because we had to -

Mr GREEN - Just before you get on to that, there is the question about the board.

Dr CREAN - The subsidiary. It is a subsidiary company and the board comprises the CEO, the CFO, the Chief Commercial Officer, who conducts trading, the General Manager of Entura and one or two other Entura members. There is no outside board member; it is all within the organisation. The whole reason for that is that it is a subsidiary company; it is to create the connection with the main company. So the board gets the minutes; I have attended a Momentum board meeting, which is run on a similar principle. Board members are able to attend particular

subsidiary board meetings, but the principle is to have an in-house board which reports to the board and provides minutes to the board so there is that continuity in governance. The same applies to Momentum.

In regard to Momentum, as I said, we did not go into it to create a new business; we went into it because we had to, to protect our wholesale position within the market, to remain competitive with the large vertically-integrated generators. What happens if you are just a wholesaler in a market where it is dominated by wholesalers attached to retailers is that margins can be squeezed in the wholesale area. We developed our retail capability to protect our margin and become more competitive. That was the main reason; it is a hedge against the wholesale margins being squeezed by the big players in the market. At the same time, you have to have a certain size retail operation to do that. We have grown it to a good size but we need to grow it further. At the same time it has become a very successful business and is going to be a very profitable business.

In regard to the other area, wind farms, that is a different thing altogether.

Ms FORREST - Before we go onto that, can I ask a question about Momentum? You have described the growth with your customer base, and they are all mainland-based customers?

Dr CREAN - That is right. We do not have a retail licence in Tasmania.

Ms FORREST - How does that compare with other retailers? I know it started off small and it is growing, but I think you said you have 5 000 gigawatt hours on the mainland.

Dr CREAN - Just under 5 000 gigawatts.

Ms FORREST - How does that compare with other retailers?

Mr ADAIR - It would represent roughly 2.5 per cent of the National Electricity Market. You have what we would call 'tier 1' retailers. Tier 1 retailers would be the very large integrated players of AGL, Origin, TRUenergy. Then there is a cluster of what we would call 'tier 2' retailers, and we are in that group. I think we are growing to the top of that list and, as the chairman has said, it is an essential part of risk management. You look at any liberalised electricity market in the world and integration takes place between generation and retail so that you avoid having any physical exposure in terms of having all generation and no retail capability. You also cover up the financial capability as well, so it removes financial exposure.

Ms FORREST - So the intention is to get to the tier 1 level?

Mr ADAIR - No, if we did that I think you would be frightened by the growth figures on that score. These players are around 20 per cent market share. I think the realisation for us is, if you look at our competitive position in the marketplace, that Tasmania has an absolutely fantastic brand in terms of clean energy. Hydro Tasmania is Australia's leading clean energy business and we are able to leverage off that brand. More and more people are aware of the impacts of climate change and the discerning buyers are seeking to buy from highly-ethical integrated players, and that is what we represent.

Mr GREEN - You should go to the website and have a look at the ads that are screened in Victoria.

Mr BALCOMBE - Perhaps the other thing to point out about Momentum's customer base is that it is predominantly made up of SMEs and commercial and industrial customers. We have some residential customers but the business model is focused on SMEs and C&I customers. We pick up ancillary customers at the residential base that are tied up with those customers at the SME and C&I base.

Mr ADAIR - If you look at a retail business, what makes Momentum successful? It is primarily that we have been able to grow the business and grow it while making a profit. In these early years it is very easy to take the cost of acquisition of a customer base and be in a loss-making position. That is not the case with Momentum and it is on its way to a significant profit this year. The idea is to retain our customers. Our churn rates are lower than the average market norm; we are about 50 per cent below the average churn rate in the marketplace, so it is about retention of that. It is a quality retailer proposition. We are building on that and growing organically. We are not acquiring customers by purchasing them at \$800 a customer, as has been the case with the sale of the New South Wales retailers, so it is a very sound business proposition.

Ms FORREST - Is there any intention then to apply for a retail licence in Tasmania and, if not, why not?

Mr ADAIR - Competitively we are restricted in terms of doing that at the moment. Clearly that would need a change in terms of the competition rules with regard to that but that is something that the expert panel might be looking at and raising that issue.

Ms FORREST - Did you raise that matter with the expert panel in your submission?

Mr ADAIR - No, we have not. We have just commented on that and we have said exactly where we are focusing our retail business because the moment that we were connected to the mainland through Basslink we had that exposure. As both the minister and the chairman have said, the retail business is a very effective means for us of managing that risk so we are taking the risk profile that we currently have because at the moment we are subject to the hydrological risk. We go from feast to famine or, more appropriately, from flood to drought and we are therefore putting ourselves in a position that we cannot manage the hydrology risk unfortunately. We do not have a direct line to the powers that be, unfortunately.

Ms FORREST - Don't you? I thought that was what you had.

Laughter.

Mr ADAIR - We are exchanging a risk that we cannot manage for a risk that we can manage. The market risks that we deal with are eminently manageable and we watch our exposure like a hawk.

Dr CREAN - I was answering your original question about the components. In relation to a sale of Momentum, not only would it take out a growing part of Hydro but it would also diminish the value of the core organisation. As I said from the beginning, it de-risks our business in terms of the wholesale price. If we were left open as a wholesaler we would be subject to the forces of the national electricity market and very open to reduced wholesale margins. It does not only have an impact on the profitability of Momentum, it has an impact on the profitability of the core business.

In terms of the other component, which is saleable, the wind farms, in fact we have shifted our strategy on that. We were a developer of wind farms, investing in wind farms for commercial returns and we still invest for commercial returns but we basically strategically are investing in wind farms for the power purchase agreements and the renewable energy certificates. It is, however, important to still have skin in the game and that is where we landed on the 25 per cent equity. Basically 75 per cent of value extraction is being processed at the moment and will be available soon as a result of our sell-down, so with any future sell-down you are just talking about the 25 per cent but, importantly, we must retain the power purchase agreement.

CHAIR - Thanks for that. Minister, we will stay on those overview questions and we have questions from other members coming up. We will also talk about the latest hot news on the wind farms as we have already started on that. I have just one quick question before I go to Mr Wilkinson. Previously with Musselroe I understand that you were going to do that development without an equity partner but now you are taking on the whole \$300 million and you are going to stump all that up. If you are going to put that on the balance sheet and take on all the construction risk, is that not a reasonable and significant risk for Hydro if anything goes wrong?

[9.30 a.m.]

Dr CREAN - We are an organisation that is exposed to many risks by our very nature, so risk management is an important part of Hydro's overall strategy and we are used to managing risk. We have a comprehensive strategy that is embedded into the organisation on a day-to-day basis. In terms of construction risk for wind farms, we have a lot of experience of that both in Australia and China. The construction risk is very well managed by the organisation. You extract a premium out of constructing a wind farm, so that is an opportunity. We have had many years as a board and management to think about this project and the important thing about Musselroe is that we have great flexibility.

Mr GREEN - Also the fact that it is an A-grade site.

Dr CREAN - In terms of the business case, it is well established. It is one of the best sites in the world. It is in the top 10 in the world and one of the best in Australia.

CHAIR - Except yesterday.

Dr CREAN - You were asking about the construction risk and the risk per se.

CHAIR - That was the question.

Dr CREAN - We have great flexibility in the construction and in the financing of it. At the moment, we are starting the project on balance sheet. As you know, in parallel, we are towards the end of the 75 per cent sell-down of Woolnorth, Studland Bay and Bluff Point and the successful bidder for that 75 per cent gets the first option to come in at 75 per cent of Musselroe. We can bring that investor or any other investor and, believe me, there are a lot of investors interested. We had 36 interested parties in the bidding process.

CHAIR - National or international?

Dr CREAN - International and national, mostly international, for Woolnorth and we have similar interests in Musselroe. But the successful bidder for Woolnorth has a first right of refusal for Musselroe -

Mr BALCOMBE - Mr Chairman, can I just correct that. They do have an exclusive period where we can negotiate.

Dr CREAM - But they can refuse it. They can say, initially, 'We do not want to be involved with Musselroe'. We do not expect that to happen but they have the exclusive right and if they were, at any point, to knock back that exclusive right, then we can put it to market.

Mr WILKINSON - Can I butt in there? Listening to what Lance was saying, if you get a prospective purchaser, what you are saying is you enter into a heads of agreement, and that heads of agreement does allow that prospective purchaser and Hydro to get into a negotiation stage and they have six months to do that. If it does not work, back onto the market it goes.

Mr BALCOMBE - Initially, what happens in that process is we share the data. So we would open a data room for that project, sign confidentiality agreements and we would have a pretty good template for the model we are doing of the Woolnorth wind farms. Over that six-month period, we would describe the business model that Hydro Tasmania wants to undertake. Obviously, the prospective purchaser would also have some views about the business model they would want to undertake. Our business model is very much focused on completing the construction, undertaking the ONM and the investor perhaps having a more passive role. But we are looking for complementary skills, such as ability to bring finance and ability to bring purchasing power leverage. So we are looking for complementary attributes.

Mr ADAIR - Also strategic value as well. Just going back to the risks, from our perspective, there a chance that they walk away and if they do, there is obviously plan B, C and D because I think the Chairman has commented on the appetite that exists out there from a whole batch of ethical investors to have a stake in these wind farm investments.

We are bringing our skill base to bear where it matters most. The Chairman has said, in terms of construction risk, we are using the same team that built Woolnorth. They came across in Roaring 40s to us. So we have a track record of managing this.

Mr GREEN - Do you want to comment on the transactions we have made to get to this point, that in fact we have turned a profit on each of the entities?

Mr ADAIR - Absolutely. On the disaggregation process, if I might come back to that point, Minister, first of all, about this deal itself and Musselroe: the idea is that we will initially commence this on our balance sheet and it gives us flexibility to decide at any time whether we move to a project finance base so that we can optimise our financial position on that.

In terms of the intention to build it, the construction risk, we have a proven track record in construction which is delivery to time, to budget and to quality, to the specification on which the tenders went out. We have that, not only in wind farm development but also in all our major Hydro projects. As the minister has mentioned, all of our Hydro projects, such as Catagunya, Poatina, Tungatinah, are lumpy investments by their nature and they have to be carefully managed. So project overrun does not enter our vocabulary because it is very tightly managed by an investment appraisal process that we have in place. So what risk do we face on this project? Very little indeed, because it brings us to the Woolnorth stage and at the Woolnorth stage we are in the process now of finalising our preferred bidder and the idea of selecting a bidder is one that meets a competitive price - and I will come back to that point which is the one that the minister

raised, that effectively the terms and conditions as Lance referred to mean that we have the right of veto over any major decision whatsoever.

Mr WILKINSON - Getting into those terms and conditions - and I do not mean to butt in on you - is this a usual way of carrying out business in the energy area, where you have a bidder, you say, 'Yes, we think we can get into bed with you but we'll decide in six months' time whether we're going to stay in bed with you'.

Mr ADAIR - No. Let's be clear, in terms of the offer, we are a highly honourable business and we are known for our integrity. The flyer of Woolnorth went out and said, basically, Woolnorth is for sale and there will be an opportunity for the successful bidder on Woolnorth to have an exclusivity period, which Lance has mentioned, to have a look at Musselroe and that is the extent of the promise that we have made on that.

All of the short-listed bidders have expressed an interest to go on with Musselroe and to have a repetition of the model that we are applying for Woolnorth to apply also to Musselroe.

Mr WILKINSON - So it cannot be a situation where the preferred bidder carries out the negotiations over a period of six months, finds out Hydro's secrets, finds out the way they do business and then says, 'Look, we don't want to become involved, now we're leaving', but they leave with all the intellectual capital.

Mr BALCOMBE - They are signed up to confidentiality agreements on that.

Mr WILKINSON - They are, are they?

Mr CREAN - It is a due diligence. Every company has to go through the due diligence. You do not take anything on without having due diligence and knowing all the facts about the wind farm.

Mr GREEN - These are effectively all the questions that we ask leading up to this point with respect to risk.

Mr ADAIR - Going back to the minister's point, in getting to this stage we have realised a profit on the disaggregation of Roaring 40s and that has been reflected in our 2010-11 accounts and what we are doing now is we will also realise a profit on the sell-down of Woolnorth. So that will set us up again for doing what we do well, and that is, we find the wind farm projects, we develop them using our skill base, we build them and we operate them and manage them. So that is what we are world-class at and that is what we export through our insurer business.

What we have determined is, given that capital is a very scarce resource, what is the optimum level that we would need to hold? So we have determined through our discussions with the board and with the minister that 50 per cent is not necessary but you can hold, what I would call, a critical level at 25.1 per cent which gives you protection against any super majority decisions and gives you the power of veto over all critical shareholder agreement issues like distribution, dividends, financing, capital expenditure, budget, appointment of key personnel. So we have put in place an excellent model that works.

The answer to your question earlier, 'Is this what happens in other energy businesses?' is yes and what we have done is shape a business model for Hydro Tasmania that recognises the constraints on capital expenditure and makes a virtue of what we do well.

Mr WILKINSON - The question before those was going to relate to Entura, seeing that we have just spoken about it. It delivered a profit last year. How is it tracking this year and what are its future projections? No doubt you have a five-year plan and that would be involved in that five-year plan.

Mr ADAIR - We have a five-year plan and I am pleased to be given the opportunity to come back on that. If I could, on a point of clarification, say it is not a subsidiary business of Hydro Tasmania so it is incorporated within our overall accounts. But what we have done, with the support of the board, is set up an arrangement to manage it on a stand-alone basis. So it is run as a commercial business and run against all commercial parameters. We have also put in place a rule that more than 80 per cent of the work is being done for Hydro Tasmania. Then we moved those people back into the core business so that we could not be accused of playing shops within the business. We are running this on a commercial basis. We have also looked at how much of the work is for Hydro Tasmania and the figure has come down. About four years ago it was 60 per cent, now it is 25 per cent. But that figure will hold steady going forward because we have a 10-year asset management plan which says where we are going to be spending our money and what type of assets and where we are likely to need the skill base out of Entura. That makes an efficiency out of not having to hold those skills within the core business, dependent on the timing of when we use them. We have a business plan that looks at what our core skills are. We have world-class hydro construction skills and hydro maintenance skills, water resource management skills and also skills in terms of power conveyance, which is the transmission and distribution, because on disaggregation all of that consulting capability came to Hydro Tasmania.

We have set up a business with a clear five-year business plan to achieve a profit level where it is turning over at the end of that five-year business plan approximately \$7 million in profit.

CHAIR - Jim, have you finished your questioning short-term?

Mr WILKINSON – Short-term? What do you mean by 'short term'?

CHAIR - Are you still going on your line of questioning or not?

Mr WILKINSON - If I can just finish with Entura, the opportunities are there and it would seem from what we have already heard that the major opportunities relate to African nations, is that right?

Mr ADAIR - If you look at the potential for hydro, how many new hydro products can we build in Australia? Not very many.

Mr WILKINSON - Not many.

Mr ADAIR - So effectively, where is the demand for the skill base that we have? The recognition of Hydro Tasmania's reputation is world class. So if you look at the potential for Hydro capability, only seven per cent of the potential in Africa is tapped; only 31 per cent of the potential in the Asia region is tapped. South America has a similar percentage. Where are the markets we are looking at? We are looking at Asia and Africa and there is plenty of opportunity

in those countries and we are seeing profitable opportunities. The chairman has already referred to our relationship with Sarawak Energy Berhad. Sarawak Energy Berhad is building 20 gigawatts, 20 000 megawatts of hydro capability. That is one of the largest sustainable developments anywhere in the world and we are associated with that. You get that on your CV, you track record, and it makes Entura an eminently marketable business. We go back to the issue of whether you should be selling Entura. I think at the moment it is a beautiful complementary business to what we have got and it is being run efficiently.

If you sold it now, would you make any money out of it? It is very difficult because they will say, 'Let us have a look at your track record,' and during the GFC, as we know, it lost \$4.5 million in 2008-09. We are therefore trying to put this on a profitable footing and that will always give us options for the future.

Mr GREEN - And we were defending the business through that period, in similar form to this and there has been a significant restructure which has taken place since.

CHAIR - So within three to five years it may be sold; is that what you are saying?

Dr CREAN - It is not a decision of the Hydro.

Mr WILKINSON - Is it another HECEC?

Dr CREAN - No.

[9.45 a.m.]

Mr ADAIR – Fundamentally, we are running this as a commercial business and the board arrangements that we have put in are to avoid it also being a distraction to the core business. The arrangement that we have put in place is that we run the discipline of an internal board and on the internal board I have the man who is in charge of the financial stewardship of the business which is the CFO. I chair that board and as the Chairman has said, we have a chief technical and operations officer who has worked in consultancy himself, Evangelista Albertini, and the Director of Corporate Services who has also worked in consultancy. So we ask all the hard questions; we check how we are tracking and we are on line to make our profit target this year.

Mr GREEN - I can give you the breakdown of the employees which gives the orientation of the concentration of the business, if you like.

CHAIR - No, if you want to table that, Minister, you could do that.

Dr GOODWIN - Could I just ask before we move off that, what is the size of the profit for the last financial year?

Mr ADAIR - Yes, I think it was just over \$100 000 but remember that is moving from a \$4.5 million loss with a reorganisation in place where we changed the organisation, changed the level of internal billing so that we were removing any form of cost subsidisation within the business.

Dr CREAN - What are we expecting this year, Lance?

Mr BALCOMBE - It is \$2.1 million.

Mr WILKINSON - It is on the rise.

Dr CREAN - Yes, it is on the rise and in fact if you look prior to the GFC, I think it made a contribution of about \$4 million in the year previously. Every consulting company during the GFC virtually collapsed.

Mr ADAIR - I am delighted with the way the business has shaped up and with its strategic plan in place its business plan is clearly focused on the markets that are going to yield the best return to us.

Mrs ARMITAGE - Sorry to go back to Momentum in your overview but I just have a couple of questions there. I notice that you said you made a gross profit of \$1 million last year and I think it was \$400 000 the net profit?

Mr ADAIR - No, it was larger than that.

Mrs ARMITAGE - It is just that we hear the word 'significant' used quite regularly and you are saying that you are looking to a significant profit this year, so obviously you are tracking quite well. What profit are you actually -

Dr CREAN - Around \$5 million is what we are looking for this year in a business like this, as I alluded to at the beginning -

Mrs ARMITAGE - Sorry, what would your net profit -

Mr ADAIR - That is what it is; net profit before tax.

Mrs ARMITAGE - You are saying you are expecting probably \$100 million annually eventually. How long are you expecting that to be before you actually get to that figure?

Dr CREAN - It is a business that is on track to grow to that sort of level within five to 10 years and the reason that we can say that is that it is rapidly growing and the bigger you get, the less the costs of acquisition for customers are. That comes out in the early stages and that is why you often allow three years before you even turn a profit. This is, we believe, going to be a very successful business and because we have back-to-back contracts with a wholesale and retail that gives us value in that process as well.

Mrs ARMITAGE - How big a part of Hydro's business do you realistically think that Momentum could be?

Mr ADAIR - I think we have to look at this in terms of 2020 as the sort of horizon we are looking at. It is highly appropriate for a vision statement and by 2020 we reckon that we could be comfortably around a figure of 15 terawatt hours coming from that retail business. What would that represent of the National Electricity Market? It means that Hydro Tasmania as a whole - and remember that Momentum is part of the core business; it is not a diversification, it is part of the core business - is currently with our generation at the moment around 6.5 per cent of the National Electricity Market and by that time we would be 10 per cent. We are saying that that is a realistic level; we are not going with ambitious targets to be one of the three gorillas because we have a niche capability and it is maximising that. How far could we grow? It really would be a matter of

how far we can exploit the fact that we are Australia's leading clean energy company and that could take us well beyond that figure and the board I think make sure that we are on track on this. We have realistic ambitions and we are taking it step-by-step and so far we have beaten the targets for each year and therefore we are appropriately conservative in terms of the targets that we are setting.

Mrs ARMITAGE - Thank you.

Dr GOODWIN - I want to ask about the carbon tax and what your current estimates are in relation to the benefit that might arise to the company from carbon tax and what your plans are in relation to that benefit?

Dr CREAN - I always refer to it as a price on carbon. It basically is the original CPRS because it is dovetailing into emissions trading. The fundamental with that scheme was that it was a fixed price on carbon for the first three years and developing into an emissions trading, so it is a very similar thing.

In terms of the uplift in price, the Federal Government has attached an amount to that with its package, to various groups in the community - I think it was \$9.90 a week. They have placed a price on it. In terms of Hydro Tasmania, we get an uplift but the extent of that uplift depends on how that price is passed through in the different streams of our revenue through the major industrials, the non-contestable customers in Tasmania and the National Electricity Market through wholesale and retail. The non-contestable customers is set by the regulator, so it depends on what the regulator does in relation to carbon. He may decide not to pass it through or to pass it through in a limited way. That affects our uplift. In terms of the EMIs, the major industrials, the contracts, it depends on how much we are able to pass through the carbon price. Is it 100 per cent, is it 50 per cent, is it less than that? That depends on the commercial negotiations. In terms of the National Electricity Market, the determination of that is how competitive the market becomes once the carbon price comes in and gas, for instance, becomes more competitive with coal and the competitive pressures that you get to gain market share from gas as against coal. So that could drive down any increase from carbon. All those elements can impact on us. If all those areas were perfect, we do not expect to derive more than \$100 million; it could be as low as \$40 million or \$50 million, depending on how those particular pass-throughs are affected.

Dr GOODWIN - In terms of that benefit of potentially \$45 million to \$100 million, what do you plan to do with it?

Mr GREEN - Effectively it flows through to us and we will think about how we manage that into the future. First of all, the quantity is an unknown. I think I know what you are getting at, whether we are going to translate that directly to relief on power prices. I think we need to understand exactly what the quantum is, what the new position looks like in terms of the subsidies that the Federal Government is going to provide as a result of the new carbon trading arrangement. It leaves us in a position where we can make decisions about all those things, how we spend the money.

Dr GOODWIN - So essentially is it a wait-and-see situation?

Mr GREEN - Yes, because we do not have all the facts in front of us at this stage.

Mr ADAIR - I think the Chairman has articulated the uncertainty as to what will happen to the revenue. What he has given you is a much more realistic estimate. Unfortunately we had some analysts, who clearly were misinformed, who said, 'You could expect a \$200 million windfall', but there are two aspects to that. All they had done was taken the figure for the carbon price that will be introduced on 1 July 2013, which is \$23 a tonne, and multiplied that by our average generation at 8 700, but that takes no account of our existing contractual commitments or the carbon intensity and the price that will pervade the marketplace, so that will be reduced by that. Transmission losses come into that as well, so all those areas of uncertainty bring the figure under \$100 million. We will be seeking to make maximise the earning capability of this business. I would like to correct the term 'windfall'. It is not a windfall.

Dr GOODWIN - I do not think I used that term.

Mr ADAIR - Sorry, I am just saying.

Dr CREAN - I think it has been referred to as a windfall in the press; you did not say it.

Mr ADAIR - We would like to have that referred to as the fact that for the first time in a long time, the true value of the quality of Hydro Tasmania's generation has been recognised in the market. Prior to that, for example, Hazelwood, which is the largest polluting station in the National Electricity Market, for every megawatt hour it produces, it produces 1.3 tonnes of CO₂ whereas we produce zero, and yet, we get the same price for our electrons as they do. The carbon price will change all that.

Ms FORREST - Just on that point and I guess this is probably to the minister, you could say that the potential benefit here is still an unknown quantity but there is the argument whether, as a government business, that benefit should flow back to the business to grow their business further, like Momentum grow the capital expenditure in the assets and more assets for Hydro Tasmania itself, such that they are in a more profitable position so that not only their dividends but the income tax equivalents and the whole lot, return to government is much greater. The Chairman might have talked earlier about the expected return. Is it necessarily the most appropriate way to put any financial benefit back into looking at necessarily reducing power prices or should it be coming back to the Government to be used on a broader range of activities and supporting Tasmanians in a variety of ways rather than just in that area?

Mr GREEN - That is obviously the balance. That would be music to the CEO's ears, that the money all be ploughed back into Hydro Tasmania itself. But the point is that we need to make decisions in the best interests of Tasmanians overall. The Chairman's opening comments effectively suggested that the State has a difficult budgetary position as it stands at the moment.

Ms FORREST - That is why I am asking the question.

Mr GREEN - I know. We are fortunate in that, potentially, there is some benefit associated with carbon. We need to weigh that against how the average person is affected by all this and make decisions. But, overall, we want to be in a position to make sure that any structural problem that we have with the budget, going forward, is addressed as rapidly as it can be and we leave the State in a good, strong position overall. This could potentially be a component of that. At the same time, we have the interface with the panel who are looking at a range of issues associated with the energy business, both past and present and then looking forward.

We are in a position in Tasmania's history where there is quite a bit at play but it does provide us with an opportunity to look at how we best set up our energy businesses for the benefit of Tasmanians overall. As I tried to allude to early on, all the work we have done in the past has been to ensure that we provide energy security to Tasmania where there has been a sense of vulnerability with respect to Tasmania when it comes to energy supply. Our growth has been hampered in the past as a result of potentially not having the ability to increase, supply and have a secure supply. I think we have concentrated heavily on that. The focus is now on electricity prices and we need to address ourselves to that issue and the Government is up for that.

Ms FORREST - It is fair to say though, isn't it, that at the moment, particularly, in light of the budget challenges, the Government is relying very heavily on the GBEs. Transend has had their dividend payments increased. Hydro have not this round.

Mr ADAIR - We have.

Ms FORREST - Yours is 50.

Mr ADAIR - Seventy-seven. We will be returning to the State, as the Chairman has said, \$118 million in this year.

Ms FORREST - That is what I am saying. If you build up the business, and the price on carbon has the capacity to do that, what is the best use of that?

Mr GREEN - That is something that the Government will grapple with as it all becomes clear. At the same time, we were facing questions last year with respect to the decisions we have made on the Tamar Valley Power Station and the effect it had on Aurora as to Aurora being in a negative position. There are swings and roundabouts with this. I understand the context of your question and what you are suggesting. Certainly, at the moment we are lucky that we have been able to insist on the dividend from Hydro Tasmania, just as the Chairman did some time ago when we were looking to improve the State's stocks and get the State going. We find ourselves in a similar position.

[10.00 a.m.]

Ms FORREST - Is this one of the reasons, as far as you are concerned, that the Hydro's whole shooting match is off the market and it is not looking to be sold because of the potential growth here because potentially it is worth millions of dollars?

Mr GREEN - It is. As the chairman said yesterday, it is in the top 50 -

Mr ADAIR - It would be an ASX top 50.

Mr HARRISS - Would it really?

Mr ADAIR - Definitely, and it is run like one as well.

Laughter.

Mr ADAIR - I can assure you it is.

Mr WILKINSON - I thought you were going to bring it up to the top 10.

Dr CREAN - I would have said that in terms of how it is run it is a top 10.

Ms FORREST - But is that not a reason to consider selling it?

Dr CREAN - That is a policy question. The only thing that I would say is that it is worth a hell of a lot more now than it was in 1998 when this question arose and it is probably going to be worth a lot more in another five to 10 years.

Mr HARRISS - On that very matter of the expanded dividend requirement, and that is a policy decision of 70 per cent next year, we are also aware that Hydro has received some equity injections. Transend, of course, has been required to return equity. What is the Government's position with regard to return of equity by Hydro?

Mr GREEN - There has been no real consideration, as you would be quite correct, with some equity transfer from Transend to Hydro in 2007. The latest one from Transend to effectively Tasrail this year -

Mr BALCOMBE - I might help the minister out a bit there. There was a capital structure review completed I think towards the end of the 2010 calendar year. Ernst and Young did the initial capital structure review when Hydro got its initial equity injection for 2007-08 and that capital structure review was concluded. At that stage there was no need from the Government's perspective to introduce additional equity into Hydro Tasmania.

Mr GREEN - But he is talking about taking them.

Mr BALCOMBE - I will go to the next stage of that. From the point of view of how we are running the capital structure of the Hydro Tasmania business, our intention is to get the business to an investment pro-credit rating which is BBB and that ensures that we are seen by our counterparts as appropriate credit-worthy trading counterparties. Also it means that we have the financial strength to handle the volatility that comes with a merchant energy risk business we are and as well as that to handle the volatility that comes where your fuel falls out of the sky.

At this stage we are BBB- so we are starting to show some good improvement on that. Two years ago we were BB- so we have shown some good improvement in building the balance sheet strength of the business. Our intention is to get the business to BBB and we are confident that we will get there within the short term and we will continue to manage the business around that.

Mr HARRISS - Then the Government has seen fit this year to require an equity return by Transend so, Minister, are you telling this committee that there is no immediate intention of the Government to require equity returns from the Hydro notwithstanding their very strong financial position?

Mr GREEN - I am saying no, that I have not considered it but Treasury are all the time looking at the underlying position of each of the businesses with respect to how well they are placed but no, I have not - as the CFO has just said, in the discussions I have had with Hydro Tasmania post board it has been with respect to ratings and the decision we made with respect to the dividends has slowed the strategy from Hydro's point of view. We want to see Hydro in the strongest possible position it can be. Transend is under a different model, as you know, which has a different and more secure position in terms of risk and how they operate generally. So even

though they are in a good position - it is something that the panel might comment on and we will await that outcome - overall the answer would be no at this stage.

Mr HARRISS - I have one further question with regard to that to the minister and then a flow-on question to David, Roy and Lance, I suspect. Minister, what is the overarching reason for the Government's policy decision to expand Hydro's dividend payment to 70 per cent, while Transend's is 60 per cent? Is that not just another way of saying that you are withdrawing a special dividend from the Hydro? You could have done that, left their dividend payment at 50 per cent, and then taken a special dividend based on their capacity to pay and assess that year on year. So what is the overarching policy reason for the expansion to 70 per cent?

Mr GREEN - The overarching position is that we needed to extract as much as is sustainable out of the business at this time in the State's history with respect to how we are managing the budget overall. That is the actual fact of it. It has proved to be a reasonable strategy in the context of how the business is operating.

Mr HARRISS - If the Government was of a mind to require a return of equity, what would Hydro's financial position be in terms of that?

Dr CREAN - Let me just say that the dividend policy is a policy of government and it has changed for us over a number of years. The dividend requirement was reduced significantly when we were in drought years in recognition of our position. It was subsequently increased to 50 per cent and then to 70 per cent. This is not the first time that Hydro Tasmania has had a 70 per cent dividend and it is not unrealistic if you look at private companies that are listed as well that this sort of magnitude is extracted. I think the important thing is when you look at Hydro's cash position after we have paid our operating costs and our finance costs but before tax, the cash that is left over when you take out our general capital expenditure each year on maintenance and upgrade of around \$70 million, all the returns to government including dividend tax equivalents and guarantee fees, that amounts to something like 85 per cent to 90 per cent on average of all the cash that we produce. So that is returned to the Government and they will get an uplift when the carbon price comes in under that formula.

Mr GREEN - By the same amount if the dividend remains the same.

Dr CREAN - That is right, if the dividend remains the same. It is a policy of the Government. In terms of the equity injection that we received, and we are very grateful for that but I believe we had a good case, if you look at the disaggregation, if that was done again back in 1997 where Transend was given no debt and Hydro was given Transend's debt, it would have been done in a different way and we would have received probably \$300 million to \$350 million less debt than we received at disaggregation. So we saw that equity transfer as really a correction of that situation but we were, of course, very grateful for it. Our projections for future cash flows and profitability are manageable with the current policy.

Mr HARRISS - So you could sustain an equity return if required?

Dr CREAN - As I mentioned in the structure, we are paying 85 to 90 per cent after we pay for our capital expenditure. So there is not much left over to do what we have to do in other areas. So as an organisation we would not want any more - but it is up to Government - and there is only one requirement in terms of government if you look in the act, and that is as long as there are enough liquid assets in an organisation that special dividend can be taken. I knew very well the

definition of that at the time when I was Treasurer and we did take a special dividend but we have returned it over the last three or four years.

Mr WILKINSON - When you were in a different position.

Laughter.

Mr ADAIR - The point was made about sustainability and I think it is a very good one. We have to ensure that the integrity of this asset base is capable of producing the generation that we are planning over the next 10 years. So we have produced what we call a 10-year asset management plan that seeks to optimise the timing of this expenditure.

I think if there was any more taken it would affect our overall sustainability in the end and I think that capital expenditure is critical to us. Also going back to a point that Lance has mentioned, the issue for us is making sure that we can operate effectively in the National Electricity Market, which is where we are as a result of being inextricably linked to the mainland through Basslink. We are in the National Electricity Market and therefore our counterparts are other players within the National Electricity Market and it is imperative to ensure that we can trade with them on the right footing and therefore the credit rating for us - the company investment grade, a BBB-, but a BBB is the intermediate target that we have in place. So regarding our overall sustainability, we have looked at our careful plans -

Mr GREEN - And yet you advocated that to us at the time.

Mr ADAIR - So with the five-year plans, we are saying, yes, we can manage 70 per cent on an ongoing basis and our five-year statement of corporate intent reflects that.

Mr BALCOMBE - To answer Mr Harriss's question, if there was a withdrawal of equity today it would take us away from our BBB target so that is the point. But capital structure is always a dynamic discussion between the investors and the company because if you look at a lot of companies these days they often make returns of capital where they have capital structures that are over their targets. So AMP and various companies such as that often return capital where they have nothing to invest and they are at their target credit rating.

It is always going to be a dynamic situation between the Government and the business about the credit rating. Our target is to get to BBB initially and then we can have other conversations.

Mr HARRISS - Thank you.

Mr WILKINSON - If I can ask in relation to that BBB, what is that going to mean to Hydro?

Mr BALCOMBE - It means that financially we are resilient and we can handle volatility, ultimately, and also, as the CEO indicated, we are seen by our counterparts in the market as financially strong.

Mr WILKINSON - It does not mean anything to the bottom line without those matters that you are talking about?

Dr CREAN - Yes, it means your debts are in a better position and your interest payments are less, your cash flow is -

Mr WILKINSON - That is what I was trying to find out.

Dr CREAN - But the real value comes with improvement whether you are BBB or not. The real value, as Lance has articulated, is in terms of counterparty and how you are seen in the market.

Mr WILKINSON - This is probably a general question on this, but on today's figures as far as your interest repayments are concerned, can you give us a ballpark figure as to the benefits with those interest rates?

Mr BALCOMBE - The thing to point out with respect to our credit rating is that we get assessed annually by Tascorp and that credit rating assessment is used to set our guarantee fee determination. So as our credit ratings improve from that BB+ - BBB-, we have seen somewhere around a 1 per cent improvement in the guarantee fees.

Ms FORREST - What does that equate to in dollar terms?

Mr BALCOMBE - I was just going to say from a point of view of guarantee fees, so every time you do a new borrowing under that guarantee fee - so for the term of that debt - that guarantee fee applies. It does vary but it would be in the millions of dollars as you start to bring that pay-down debt and refinance that debt using that lower guarantee fee. So it is material.

[10.15 a.m.]

Mr ADAIR - It is a critical target for us. If you look at the position of Hydro Tasmania on the contribution it makes at the moment, we represent around 7 per cent of non-Federal funding to the State, which is a significant figure. The credit rating of Hydro Tasmania has a bearing on the credit rating of the State, so it is very important that we try to maintain it at its current level. We are very conscious of these factors in the financial targets that we set for the business.

CHAIR - Minister, whilst we are on the theme of renewables and yesterday's announcement on Musselroe, I noticed in today's press that former chair, Peter Rae, has called for advantage to be taken of those increased renewables, which we may be generating in this State. He has called for a look at a second Basslink cable. What is your opinion on that?

Mr GREEN - The renewable energy committee made a recommendation. I think honourable members would remember that we also received a briefing from Transend on their view as to the potential of a second cable. We are always open to commercial opportunities and people are suggesting that Tasmania's position in a national context is significant when it comes to renewable energy and in a carbon-constrained world we should take advantage of all those opportunities for Tasmania into the future. At this stage, from a commercial point of view, it is a little way off. It is something that we will always continue to consider, but it is difficult to see how we would be in a position to build another cable.

CHAIR - Yes. If it were done, how would you fund it?

Mr GREEN - All these commercial questions would need to be taken into consideration.

CHAIR - I can see the CEO down there nodding and wanting to say something.

Dr CREAN - We do not want another facility fee, thank you.

CHAIR - That was my next question.

Dr CREAN - We are handling this one quite well.

Ms FORREST - What is the current facility fee?

Dr CREAN - Last year it was \$79 million. It varies according to the price spreads in the national market. It has been as high as \$98 million.

Mrs ARMITAGE - While we are talking about Basslink, how are you tracking this year? I notice that for the first time last year you had a net export, so how are you going this year with Basslink?

Dr CREAN - It is about taking the opportunities with export. The national market has been very flat in wholesale prices.

Mr WILKINSON - It sounds not too good to me.

Laughter.

Dr CREAN - No, it is fact. We want to capture the high export prices when we can. We have a value of water that we assess, so whether we export at a particular price is determined by how we have assessed our value of water in storage. This year we are probably a bit below what we were this time last year, I would think.

Mr ADAIR - That is absolutely right, Chairman. You also have to look at the fact that from 1 July next year the price in the marketplace will go up as a result of the carbon price. It is far better to have it in storage rather than be generating it now. We are prudently managing the value of our water.

Ms FORREST - You are banking your water?

Mr ADAIR - That is effectively what we are doing.

Dr CREAN - We do that all the time. If there were a carbon price or not, if for some other reason, if we knew there was a major outage in the national market, for instance, at a particular time, the water would be valued differently. This is part of the dynamic and function of Basslink.

Mr ADAIR - That is the beauty of it; it gives you that facility to arbitrage. It is not just the difference between the peak and off-peak prices, it is looking at what the future trends in prices are.

Ms FORREST - Do you have a long-term weather forecast for the mainland?

Mr ADAIR - We do, but how reliable are those?

Ms FORREST - It is going to get hotter over there.

Mr ADAIR - You have to be constantly adaptable to this. But, as you say, if we have a hot summer, we have the capability of exporting on that basis and realising the difference between the peak and off-peak.

CHAIR - Whilst we are talking about increasing our generating capacity particularly with yesterday's announcement, we have four major industrial users, and we would hate to see it, but there is always the capacity for one of those to come adrift, like a Nystar or a Rio or whatever. If that happened, do you have a contingency plan in place to deal with that? It is a very significant tranche of our generating capacity at the moment. What would Hydro do if we lost a Rio overnight and where do we go there?

Mr ADAIR - Primarily, from an M1 perspective, you would always try to increase the resilience of your customer base, which is the long-term strategy. Our aim is to highlight the qualities of basing businesses in Tasmania on the quality of the energy production that we have here. But if that happened, obviously we would be exporting more energy across to the mainland and that is where we would seek to immediately remedy that deficiency.

CHAIR - So you would probably need another cable to do that?

Mr ADAIR - No.

CHAIR - Is there enough capacity in what we have there at the moment?

Mr ADAIR - If you look at the times when we import, we would probably lower the times when we are importing so that our times for exporting would expand. If you look at a 24-hour duration curve, the hours where we import would be reduced and our hours for exportation would increase.

Mr BALCOMBE - I think the other one about Momentum is, to some extent, by creating another revenue base in another region, be it mainland Australia, that is trying to mitigate against potential risks of what you see in the Tasmanian region because we are going to grow our revenue base on the mainland through Momentum that does not rely on MI customers in Tasmania. It is not too reliant on hydrology out of Tasmania. So, to some extent, by growing a larger revenue base and another profit centre for the business, we are potentially mitigating against that situation. From a point of view, there will still be impact on the business. But if we were to do nothing, the impact would be greater.

Mr BALCOMBE - Lance is absolutely right, if I can re-emphasise that point. This is part of de-risking strategy, so that the risk of losing a major customer like that does not have a devastating financial impact.

CHAIR - As you just mentioned, I think that prices are flat at the moment on the mainland. What are the future predictions? Under a new carbon tax, do you expect that maybe some coal-producing power stations on the mainland may close down, so that may give you greater opportunities to export? Is that part of your thinking at this stage?

Mr ADAIR - Certainly the average electricity price would go up as a result of the carbon price introduction and you will see that the marginal electricity generator will start to move away

from the very low-cost, brown coal and black coal generators. You will see gas-fired generation entering the marketplace because gas-fired generation is, shall we say, the cleanest thermal source of generation and it is 100 per cent firm. Whereas, renewable energy technologies like solar and wind are episodic in nature, so you do need that mix. So the marginal price will begin to be dominated and the National Electricity Market operates on a system marginal price. So that marginal price will become gas-fired generation. So gas-fired generation, therefore, is more expensive than coal and will become more expensive, as you can see because there is significant investment in gas, and gas will become dominated by world gas prices because there is an LNG capability. LNG means that you can effectively transport the gas through the gas network to a LNG plant where it becomes liquefied and then shipped around the world and then it is stored and re-gassed back into their systems. So the tendency would be for an increase in price as a result of that because if you are seeking to reduce the carbon intensity of Australia's energy production - and it is .86 at the moment, which is for every megawatt hour it produces - it also produces 860 kilograms of CO₂. So clearly the renewable energy target of 20 per cent by 2020 will help in that; the introduction of a carbon price, which as the Chairman has said, is the forerunner to an emissions trading scheme, will also see emissions reduced. But if you are going to reduce away from the cheap coal-fired generation, then you will be moving to gas and renewable energy technology which is more expensive. To answer your question then, the longer-term prognosis is higher prices.

CHAIR - Interesting. We will have a question from Dr Goodwin and then we will take a break for 10 minutes.

Dr GOODWIN - In the introductory comments it was observed that there has been some work to try to make Hydro a more efficient organisation, or indeed that that has been achieved. In the annual report there was mention of \$13 million in operational savings last financial year. Are you able to break that down a bit in terms of where those savings came from and how they were achieved and also indicate whether further savings are anticipated this financial year?

Mr ADAIR - Dr Goodwin, we operate on our Olympic motto; the Olympic motto, as you are well aware, is 'Altius Citius Fortius' - higher, faster, stronger. For Hydro Tasmania, it is more -

Mr WILKINSON - You forgot to say five rings - ring five times.

Laughter.

Mr ADAIR - No, we always answer after the third ring. It is more and better for less. It is a continuous process. Our aim is that we are a least-cost producer. Lance mentioned that markets are volatile and we therefore need to be in a position where we can withstand the volatility of a marketplace. So we are constantly refining our cost base and the \$13 million was part and parcel of a target of ensuring that we can seek to maintain that competitive position in the marketplace. In terms of its componentry, it was looking at a variety of costs and we had a comprehensive review of our operating cost base. We did reduce numbers by around 50 people and that is something that we said we would have a look at in the organisation. We reviewed the organisation structure so that we are ensuring that the business is well-placed to deal with the challenges of the future. Together with the board we have outlined our strategy for doing that so we have positioned the business to compete well within the National Electricity Market in the future. There are other areas, for example, like insurance because of our track record in the quality of insurance; I will ask Lance to talk about that. Because of our competitive nature, we

have been able to reduce our insurance premium while at the same time not doing anything about the quality of the coverage - not reducing the quality.

Mr BALCOMBE - We spend a lot of time understanding predictions of business interruption risks and if we had a business interruption event, how that would come into play. Being a complex business, it was not simple. So we ran some in-house exercises about what would happen if we did lose a dam. Obviously, we have property to cover the loss of the dam but also you have to cover the loss of the water and the lack of generation capacity. So based on that we were able to revise our limits and pull our limits in. We found that we were over-insured for those events. We had a general look at activities across the business and took appropriate measures where we were able to change the level of covers particularly with insurance.

Mr ADAIR - That is two examples on those components. Those are enduring cost reductions. Our aim is to watch our numbers like a hawk because people spend money and therefore you keep tight control on your numbers. Our aim is to be regarded as a highly efficient player with in the marketplace - which is what we believe we are.

CHAIR - Okay. We will suspend for a few minutes.

The committee suspended from 10.30 a.m. to 10.50 a.m.

CHAIR - I will call the meeting to order, thank you very much, and we will resume.

Ms FORREST - Going back to Musselroe and the expansion there, did Hydro attempt to find a private equity partner to finance the Musselroe development before China Light and Power dissolved that joint venture?

Mr GREEN - Early on, you mean?

Ms FORREST - But since you pulled out from the joint venture.

Dr CREAN - From Roaring 40s?

Ms FORREST - From Roaring 40s, yes.

Dr CREAN - No, it is a combined strategy with the sell-down of Woolnorth and Musselroe and basically the important strategic decision that we made was that we do not want to be more than 25 to 25.1 per cent so that was the big change. So how could we progress this with both the sell-down of Woolnorth and the development of Musselroe, and in parallel? Secondly, with the long history of Musselroe, planning was first granted in 2004 and for a number of reasons such as the changes to the RET schemes, financial crisis and so on, we never had a window of opportunity to develop it commercially.

With the solid renewable energy target scheme, the price on carbon, and importantly, the Australian dollar in relation to the euro and the US dollar, it gave us this window of opportunity but at the same time, gave us the flexibility to draw in a partner any time over the development period, as we talked about before. That is why strategically we decided some time ago that this is how we would do it. We would do it on balance sheet to a point which might - we have the

flexibility to go right through construction and then sell-down or we have the flexibility to draw in a partner at any time along the way.

The debt that we take on is staged. Lance might be able to give us the rough estimates in what year we take on different debt levels.

Mr BALCOMBE - I love a question without notice.

Laughter.

Ms FORREST - It already has the answer there though.

Mr CREAN - It is certainly not substantial. It is at the end of 2012-13 that there are big lumps of debt but up until then -

Ms FORREST - If you can give us that then, I have other questions along the lines of where this is headed.

Mr BALCOMBE - Importantly, we have only just approved the business case for Musselroe so it is very hard to sell that down unless you have the business case in shape and in order because you really have nothing to sell until you have your suppliers tied up, who your turbine manufacturers are, and off-take arrangements with Hydro Tasmania. So there is a whole package of things to go into making that business case and we have only just completed that, it was approved by our board during November and there were some ministerial approvals to go through subsequent to that. So we have really had nothing to sell until we had that business case together.

With respect to the debt arrangements, there is a series of progress payments we make to suppliers and Vestas will be the biggest component of that. All those costs are pretty well locked in so from a point of view of de-risking the project, we have a supply-and-install contract with Vestas. Other parts of balance-of-plan contracts are very close to being signed, if not already signed. We are always in the process of going through those.

With respect to the debt, as the Chairman has indicated, we will be doing that on balance sheet and by the time we get to the 2013 completion date, we will have had all that approximately \$400 million on our balance sheet. I am going from memory here but it is probably somewhere around \$100 million by the end of this current financial year and then it starts to ramp up.

Dr CREAN - But netted off that will be the debt that is currently there for Woolnorth, which is \$143 million. That will go off.

Ms FORREST - That is the value of Woolnorth?

Dr CREAN - That is the debt that we acquired with Roaring 40s. That is on our balance sheet and that will go off. What will come on will be the sale proceeds from 75 per cent of Woolnorth as well. So that will net out the impact. As I said before, once the 75 per cent of Woolnorth and Musselroe is sold down, then our debt will be around the \$800 million whenever we sell down Musselroe.

Ms FORREST - I understand and I could be wrong, so correct me if I am wrong, that about \$150 million of debt came with the Roaring 40s?

Dr CREAN - That is right.

Ms FORREST - Also that all the Hydro Tasmania wind debt is with a private lender?

Mr BALCOMBE - It is with a consortium led by National Australia Bank. So there are three other banks involved in that, Mizuho, the Japanese bank, HSBC and a bank called Dexia, which is a European bank. So, as part of the sell-down process, we are refinancing that facility.

Ms FORREST - With Tascorp?

Mr BALCOMBE - No. It will be project-financed because, in the end, we cannot do it with Tascorp because we are going to have private equity involved in the project, so you cannot have the State lender involved.

Dr CREAN - The important thing is, it goes off our balance sheet. It is what is called non-recourse financing. So it comes within the joint venture structure. That is the importance of it. It does not go on our balance sheet, it comes off. So it is only currently on our balance sheet with Musselroe because that is how we have decided to kick it off.

Mr ADAIR - That flexibility on Musselroe is critical to us because it gives us the opportunity to earn a return on the construction of the project. So we earn a sell-down premium on that and it is our capability of then adding to overall profitability of the project. We will then strike a balance on where our best return is, to project finance early or wait until the end of construction and then project-finance when the project is complete and fully operational.

Ms FORREST - The debt arrangements have not really been nailed down then as yet, is that what you are saying?

Mr BALCOMBE - Other than the core borrowing. We have government approval. The base case is that we will borrow all the money from Tascorp. The variant to that would be that we project-finance during construction.

Mr ADAIR - But the project is eminently financable. We could finance this on a non-recourse basis with a partner at any time.

Ms FORREST - What is the rate of return that you are expecting?

Mr ADAIR - The rate of return is above our threshold and this is a commercial rate of return. We are in sensitive negotiations and this is a very public meeting. Suffice to say that we are looking for an attractive rate of return out of this.

Mr GREEN - Can I just make the point, we need to come from the foundation position here or the central position and that is, do we want to build Musselroe or not? Of course the Government, working with Hydro Tasmania, wants to build Musselroe. It is a \$400 million project. It is significant in terms of all the benefits it will have for Tasmania right now and over time. The fact that some people are trying to turn this into a negative, particularly the opposition spokesperson for energy, amazes me. The fact is that the business case in itself had to be ticked off. We have talked about this strategy now for a long time. There were changes with respect to the renewable energy targets at a national level that brought the project right back into an

appropriate space. If you want to build the project, this is the path to go down. The strategy has been well thought through and in the end, now, this project will go ahead.

Ms FORREST - I hear what you are saying, Minister. I think it is important for us to discuss this and drill down into it in that obviously there are benefits to the State of Tasmania beyond increasing the amount of electricity we are generating here. There are the employment benefits and the other benefits that come to the State. When you look at the additional costs of getting that power into the grid, the transmission costs, which is Transend's area not Hydro's, I accept, then the question does need to be asked, is this development being made to better position the State in the renewable energy area or is it about job creation or shoring up Hydro Tasmania? When you look at the cost of establishing Musselroe Bay, the cost of getting the power to the grid and then the customer who pays for that, there are significant costs and it will not reduce the cost of energy in Tasmania to the local consumer.

[11.00 a.m.]

Mr GREEN - No, it will not reduce the cost. As to achieving the targets we set ourselves for the ongoing production of renewable energy, this fits in well with the corporate plan. It establishes further opportunities for the generation of carbon-neutral energy. Listening to the CEO for the southern region Vestas yesterday, he was talking about the manufacture of the componentry and the recycling of that in 20 years' time - 80 per cent of it is carbon neutral. It is a project that is at the forefront of technology and therefore it ticks all the boxes in being a good and viable project for the State. As to renewable energy generated from wind lowering the cost of electricity prices in Tasmania, the answer is no.

Ms FORREST - That needs to be made fairly clear because I think there is an expectation that it will.

Mr ADAIR - But it will not put them up either.

Dr CREAN - It is important from Hydro Tasmania's point of view to answer this on the basis of a commercial business. We would not be building Musselroe if it were not commercial. It has job opportunities but the important thing for Hydro is that we are taking the power purchase agreement at a price that works for us and it delivers a good commercial return. That is the first very important point because that is what the decision is based on primarily.

As a result of our going through this business case and developing and landing the business case, we have also been cognisant of the fact that this is a \$400 million project. It is a big investment for Tasmania and it has jobs, direct and indirect, and we worked hard in the business case to give all Tasmanian businesses that were capable of doing any of the contracts full and fair opportunity to compete for those contracts. We are delighted to say that at least eight Tasmanian businesses will share in something like \$75 million of local contracts. We announced it yesterday at Haywards; they are building the wind towers. That is an important step forward for that company. They are employing something like 240 people.

Ms FORREST - Extra people?

Dr CREAN - No, that is their business, but they rely on these sorts of projects to maintain that employment. I remember when I was Treasurer and visited them they were employing approximately 40 people then, and it is now 240. This has good consequences for the Tasmanian

economy but the important thing for us is that it is a commercial decision, a good commercial return, the power we want, the RECs we need, to back our retail growth.

There are two aspects to your question - from a Hydro point of view and a government point of view from the benefit. The Government would not want to support our going into it if it were not commercial either.

Mr GREEN - We have had to go through all the Treasury and ministerial tick-offs based on the business case. It is a sound business case for the project.

Mr ADAIR - It is the strategic fit that the Chairman has talked about that is critical. Through the retail business we have an obligation for renewable energy certificates and it is far better to get them from our own source and from a world-class project, and this is a world-class project.

Ms FORREST - When the Government, as opposed to Hydro, is considering creating more energy resource, what consideration is given to looking at natural gas as an alternative? There is no incentive for Hydro to invest in that, I would suggest - maybe I am wrong. Musselroe is on the edge of coast, and that is the same as Woolnorth, on the far reaches of the State and the costs of getting the energy from there into the grid are not insignificant. How does the Government make a decision, Minister, about the most appropriate expansion of energy into a particular area? Admittedly, most of the grid goes everywhere including the mainland.

Mr GREEN - Hydro does not have any gas.

Ms FORREST - That is what I am saying, but is that a consideration for the Government, though? We want renewable energy and obviously there are a number of benefits in investing in renewable energy so is that a consideration, although not of Hydro obviously? Where does that fit in?

Mr GREEN - We have talked about energy security in the past. To go right back, it was an oil-fired power station and then it was converted to gas peaking generators at one stage and with the hydrological risk we were at an amazingly low ebb and of course then with the global financial crisis, Babcock and Brown not being able to finish the project meant that the Tamar Valley Power Station became something that was on the market and a decision was made at that stage for Aurora to take it on.

Hydro's business in Tasmania is centred around the renewable energy sector and that is the focus that we have had for this business.

CHAIR - On that same subject, Minister, with Musselroe and wind energy per se there were some questions last year, if I recall, about modelling that was done. I think there were windshear factors and all sorts of things, and the end results did not come up to the speed of some of the modelling that was done. With Musselroe are you confident that everything will work and produce what it ought to?

Mr GREEN - Initially going well back there were some issues associated with windshear and that was relatively early on in the development of the technology and the actual siting of the towers and a whole range of other things but that has largely been overcome, as I understand it, Mr Chairman.

Dr CREAN - Development approval was given in 2004 for Musselroe. Not only is it an A-grade site but this would be a world record in the number of years that we have been taking data for this site. The data has been assessed by Entura plus two independent assessments over and above that to secure what is the A-grade site in terms of wind based on the data which is more comprehensive than any wind site ever developed, I would suggest, and it has been independently assessed so there is no issue with that.

Mr GREEN - And the technology has changed, compared to the size of the machines that we put in at Woolnorth.

CHAIR - The ones that are going into Musselroe are much larger?

Mr GREEN - Much larger.

Dr CREAN - B90s.

Mr BALCOMBE - Can I just add one point to Mr Hall's question. In regard to some of the factors you talked about, you were referring to issues with respect to the Woolnorth site because it is challenging topography. It is on cliffs and you do get some windshear factors as the wind comes up the cliffs. Importantly, at Musselroe it is a much more benign site topographically so it is much more undulating land, there are no sharp escarpments that we face at Woolnorth so from the point of view of the challenges that come with the actual wind resource they are much more benign so that has been taken into account.

I think the other element is that with respect to the monitoring we have, the monitoring at Musselroe is all at hub height so it is where the wind turbines will be situated so we have a much more accurate database for the position.

CHAIR - Are there any environmental issues or challenges coming up? Some people call them parrot blenders and all that sort of thing, and there are the visual aspects. Even though it is renewable not everybody likes them, do they?

Mr GREEN - We received planning approval in 2004, Mr Chairman.

CHAIR - There has not been any need to seek -

Mr GREEN - No, it is a live project. The work has been done. The cost of transmission is weighed against the quality of the site in terms of what it potentially can generate. Going back to the fundamentals, as the CEO pointed out, remember it is an intermittent source of energy which means that while it is blowing we can generate energy and save water. It is a good mix that will fit with our hydro dams; they act like a capacitor effectively.

CHAIR - What are our latest water storage levels?

Mr GREEN - Over 58 per cent.

CHAIR - Are there any projections coming up - are you game enough?

Mr GREEN - We are thinking about this as a high-rainfall couple of years but apparently they are effectively average years. They seem like an enormous amount of rain when you

consider where we have been with the 10-year drought. But these are average years and apparently it is supposed to be average. Overall, I think that the climate change modelling that has been undertaken out to the end of the longer term says that there are swings and roundabouts associated with where the rain will fall but overall Hydro is still in a good position.

CHAIR - Whilst it is all good at the moment, there is that other El Nino around the corner and we could end up like we did a couple of years ago, and where do we go then?

Dr CREAN - I think it is important to note, following on from what the minister said, that the old average - remember we tackled this some years ago - was 10 000 gigawatt hours per annum.

CHAIR - And now you are down to 8 700.

Dr CREAN - We have de-rated it twice to 8 700; that is where the average is - 8 700 gigawatt hours. That is why I said in the opening remarks that it has been fair to good rainfall but really it is still below what the old average was. But in relation to the way that we operate Hydro now through Basslink and the efficiencies that we have taken into account, we believe that we are in a break-even point of about 7 000 gigawatt hours which is a significant change from say, pre-Basslink certainly, but even years past Basslink. In the last three years we can demonstrate that is about a break-even point and we could not demonstrate that before. The chances of getting 7 000 gigawatt hours per annum in system yield is very remote but it can happen.

Even in those three years a couple of years ago where you had three of the lowest consecutive years on record, it did not get below 7 000. I understand that they were all above 7 000. So it is unlikely but we are able to manage that. But, of course, we want to get average; our budget is based on average inflows so we want to get that.

CHAIR - It was a previous minister here - I think it was Mr Llewellyn - who sat at this table and said we need rain in biblical proportions.

Dr CREAN - That was Mr Gutwein.

CHAIR - Okay. I thought it was Mr Llewellyn.

Dr CREAN - Mr Gutwein coined it originally. It might have been Mr Llewellyn who used it subsequently.

Mr GREEN - When you have a look, you can see where it was at there; it was effectively flatlining well under 20 per cent.

Mr WILKINSON - 17 per cent.

Mr GREEN - And everyone had their heart in their mouth at that stage.

Mr ADAIR - Mr Chairman, can I just come in on the whole water storage level issue and our strategy. Our strategy recognises that clearly we will be impacted by drought years. We have utilised this strategy of improving our cost base to improve our robustness against that and also improving our revenue base through the retail business to ensure that we will be able to make a profit in those years rather than just breaking even. That is why the integration of Momentum

within the core business is absolutely critical to us. It is a fundamental part of our strategy for the future. This is about de-risking Hydro Tasmania's earnings over the long term. From a government's perspective, they would like to see steady earnings and we intend to deliver steady earnings.

Mr WILKINSON - If I can just comment on that same question, it was interesting because when we had that talk we were speaking about a debt crisis. We were asking, 'Is there a debt crisis?' and you were saying that there was not and it was a bit of a stuck record there for about the first 15 minutes, wasn't it? But whatever the case, there was a \$58.002 million deficit; then it started to increase over the last three years when the rain started to trickle down - \$38 million, \$72 million and \$100 million - I can see it going up obviously part-reason because of the rain. I am saying part-reason. But is it a situation where you have an ideal level with the dams? Then it was down to about 17 per cent. It is up to about 58 to 59 per cent now. What is the ideal with the experience that you have had?

[11.15 a.m.]

Dr CREAN - We have stated publicly, I think, that at the end of each financial year we want it to be no lower than a certain level - 30 per cent - and then no higher than - we said 50 per cent but within that range you have to take into account opportunities. We have an opportunity of course with the carbon price coming in and we have had other opportunities where we have held off because of impending outages where prices will go up. So we have utilised that.

Of course, the other thing is that if you have had decent rain over a number of years and we try to minimise spill - but you still get spill in the northern headwaters - we have been able to minimise that significantly with Basslink. But you can still get a spill, like the one at Trevallyn. When you get good rainfall, you cannot help but fill up; so in certain circumstances you may go above the 50 per cent as we have because we have had two to three good years of rainfall.

Mr WILKINSON - One of the matters as well, was it not, was that there has not been as much snow as previously and therefore the melt and the run-off into the rivers has not been as good. That, to me, seems to be about the same, is that right? There has not been the cold weather that we experienced years ago and there has not been that same run-off as a result of the snow. Has that affected it at all?

Mr ADAIR - We have had a good winter in terms of rainfall -

Mr WILKINSON - Rainfall, yes.

Mr ADAIR - and snow.

Dr CREAN - And snow, there has been good snow.

Mr WILKINSON - And snow as well.

Mr GREEN - One of the highest falls ripped all the spouting off my shack and collapsed the bloke up the road. The bloke up the road collapsed his shed onto his boat.

Ms FORREST - Under the snow?

Mr GREEN - Under the snow, yes; so there has been quite a bit of snow.

CHAIR - Dr Goodwin is getting a knitted brow here so I had better let her ask a question.

Dr GOODWIN - I would like to go back to the carbon price benefit. There has been a range of \$43 million or \$45 million -

Dr CREAN - It could get to as low as \$40 million to \$50 million, yes.

Dr GOODWIN - Okay. In terms of non-contestable customers, what proportion do you think will come from the non-contestable customers out of that \$40 million to \$100 million? Do you have any ideas on that?

Dr CREAN - We cannot do the calculations but what we can say in relation to non-contestable in terms of Hydro's revenue is significantly reduced as our overall revenue because our mainland revenue has significantly increased and the most recent arrangements with Aurora where Aurora has been running the Tamar Valley Power Station so they supply more of that market than they did. For those reasons the amount reduces. But it depends on whether the independent Regulator passes any of it through so that will determine that but, remember, the Federal compensation package is to take into account any uplift. For example, if the regulator decided not to pass it through, they would still get the compensation. So they get a double effect.

But we cannot put a figure on it. For instance, if we were not able to pass through any carbon in any of those areas, which is not realistic, we would not get any uplift. So it is from zero to probably \$100 million but maybe somewhere in the middle but we do not know because we do not know how it is going to affect that group and how it is going to be passed through.

Mr GREEN - The key answer to your question with respect to non-contestable customers is the fact that it is regulated and that is an independent process. Of course, looking at full retail contestability is something that is front and centre when it comes to the panel's deliberations and we will take and look at the advice that they provide us with respect to whether or not it is possible or feasible to get Tasmania's non-contestable customers into full retail contestability. Despite what is said, day in, day out, our concern obviously is to ensure that customers pay as little as they possibly can. In another place we will be talking to Aurora, which is the main interface when it comes to issues associated with price. Suffice to say, what I have learned in this debate about full retail contestability since becoming minister is that there is a lot that would need to be done to get us into that space. It is not simply a matter of waking up one morning and saying, 'Now we have full retail contestability'. There is a whole range of issues and scenarios that would have to be worked through to get us to that point. I am looking forward to the report in some ways in respect to that argument because I think it will debunk a lot of the 'just do it' mentality that seems to be around when it comes to full retail contestability. There are significant costs associated with getting to that point.

Ms FORREST - It is a fair comment on that point. Full retail contestability relies on competition in the wholesale market, does it not? It is not going to work without that.

Mr GREEN - That is another debatable point. From Hydro's point of view it is debatable. The Government needs to make its mind up as to how we tackle the issue of electricity prices to consumers. It is an expensive process that we are going through. The Parliament decided to establish a panel to look at this whole question, and I included full retail contestability at a latter stage with respect to this. Initially some would say it might have been established as a bit of a

witch-hunt for past decisions about Basslink and the Tamar Valley Power Station and decisions that have been made generally. I am trying to turn this into a positive so that we ensure that the Tasmanian people understand that the Government is focused on prices and ensure that the energy businesses themselves are focused on price. We believe that the work we have done in the past on security stands us in good stead to at least put ourselves into a position. People have short memories as to the transition we have faced here. Other than disaggregation, we have entered the National Electricity Market and there has been an enormous amount happening in a relatively short time. The focus is on trying to ensure that we get a positive result from the investment we are making in independent people to look at the structures of the many businesses. The CEO might want to have his two bobs' worth on wholesale.

Ms FORREST - Many people say that that is the issue.

Mr ADAIR - It is absolutely not the issue. If you look at what has caused the price movement over the last few years, it has been the increase in cost of the poles and wires. Transmission and distribution costs have grown over the last five years in real terms by an average of 7 per cent. There are reasons for that and they are regulated prices but that is what has caused the price increase. It is absolutely not wholesale prices. The average wholesale price 10 years ago was \$36 a megawatt hour; the average price last year was \$36 a megawatt hour. Wholesale prices are almost at an unsustainably low level.

Ms FORREST - You could scare the horses saying that.

Mr ADAIR - No, we are looking at the issue that a number of the brown coal generators are seeking to refinance at the moment and they have basic difficulties because of the current price levels they are experiencing.

The point was raised, 'Do you need to have any change to wholesale to affect full retail contestability?' and the answer is no, we are happy to sell to anybody; we are happy to sell to anybody at market prices.

Dr CREAN - In our submission to the expert panel - and this was made public in a subsequent speech by the CEO - we provided a bar graph comparing over the last eight years, 2000-03 to 2010-11, the components of electricity prices that have grown. Wholesale prices as the component of the total end retail price grew by 30 per cent in eight years, whereas in the same time, poles and wires and transmission grew by 60 per cent, and that is a fact.

Ms FORREST - That includes transmission?

Dr CREAN - Yes, transmission and distribution, and that is a fact. This is a factual graph. I think it was based on the independent Regulator's -

Mr ADAIR - It is the panel's figures back to them that show what the reason for the cost is.

Dr CREAN - You just have to look at the wholesale market in the spot market and compare Tasmania with all other States and in terms of wholesale, it certainly has not moved as much as other areas and it is competitive with all other States.

Mr ADAIR - The figure that has moved there, Chairman, is the energy component within the non-contestable mode, which is set by the Regulator. Wholesale prices in the competitive

electricity market have barely moved over that period and I have a comparison because I live and breathe these figures and we have the second-lowest wholesale prices, on average, over the last five years.

Ms FORREST - You might have to get out more.

Mr ADAIR - Sorry?

Ms FORREST - If you live and breathe the figures, you might need to get out more.

Mr ADAIR - My wife says that.

Mr GREEN - It is a worthy contribution. But, in the end, the Government will look at the benefits overall and we will establish a position based on the report to ensure that Tasmanians understand that we are doing our best to provide them with the lowest prices possible.

Dr GOODWIN - I wanted to go back to the wind-blowing issue and ask about Cathedral Rocks because I think this year it made a profit, is that right?

Mr ADAIR - Cathedral Rocks has been disposed of under the disaggregation. So we no longer hold Cathedral Rocks. Under the disaggregation, we picked up, the quality Tasmanian assets which were Woolnorth -

Laughter.

Dr GOODWIN - Because it was having a problem with the wind blowing, wasn't it?

Mr ADAIR - Do not infer anything from that response. But I think it is fair to say that Cathedral Rocks did have a slight wind problem and that was a joint venture not only between CLP and us, because CLP and we were only a 50 per cent owner. The other 50 per cent was Acciona.

Mr BALCOMBE - Dr Goodwin, if you are referring to the financial statements, the company we are referring to there is Cathedral Rocks Construction and Management, which was the EPC contractor to the project. That was a joint venture between Hydro Tasmania and Acciona that built the wind farm. So that is the one and that joint venture lives on but we are in the process of winding it up because it has done its job and it is not doing it now.

Dr GOODWIN - Yes, I was a little bit confused from reading the *Hansard* from last year and trying to reconcile it all.

Mr BALCOMBE - The one referred to in our accounts is the construction company. It has done its job and we are in the process of -

Dr GOODWIN - The other one has been disposed of.

Mr GREEN - With your indulgence, Mr Chairman, based on the question, do you want to run through what the wind-up of Roaring 40s was?

CHAIR - Yes, Minister, if we could be fairly succinct with some of that because there is a multitude of questions left and we only have 30 minutes.

Mr ADAIR - Certainly, Chairman, I will be as concise as possible. We had a look at the disaggregation of Roaring 40s with CLP and when CLP entered we were not competitors in this joint venture but we became competitors because CLP owned True Energy and therefore we decided what is in the best interests for Hydro Tasmania in terms of direction, speed of building, and where we would build these wind farms. We decided that we wanted to control our own destiny, which the new wind development model that we put in place enables us to do. We then decided that disaggregation would be the best way to go forward and we agreed on a split of the assets and we said that we would take, in terms of operating assets, Woolnorth and they would take the South Australian assets, which were Waterloo and Cathedral Rocks.

[11.30 a.m.]

We then also split the pipeline. So we have some opportunities for development in Victoria and New South Wales and they too have sites in South Australia. South Australia is not the major part of our retail strategy because its growth rate is nowhere near that of Victoria and New South Wales which are more lucrative markets for our retail business. So it is fundamentally how we went through that and at the end of the day I think we booked a profit of \$23 million from going through that disaggregation process.

Dr GOODWIN - In terms of the Basslink contractual dispute, how is that going? Has that been resolved?

Mr ADAIR - This is not a major dispute, this is about the commercial risk-sharing mechanism. What we are seeking to do is see that there is proper alignment of the parties when the weather gets hot so it is an equal pay and equal gain arrangement that we are after. I would say we have the end of that solution in sight and we are aiming to hopefully have that all resolved by the end of February.

Dr GOODWIN - I was going to ask about the Rowallan Dam because there was some dispute over exactly what was going on there. Where is that at?

Mr BALCOMBE - With respect to the Rowallan Dam, I am no engineer but I do know about this from -

CHAIR - A very important dam, too, might I say.

Mr BALCOMBE - It is - the perspective of getting it insured. There are some issues with respect to the spillway walls where there has been some movement and there has been a long-running internal program to look at how we address that issue.

Mr GREEN - The number one thing to say is that it is safe.

Mr BALCOMBE - It is safe, I was getting to that, and it is being made safer with an interim solution where the technical operations team have opened the dam walls up and put in some concrete blocks and then attached some cables to the spillway walls to stop them moving. That is quite a robust solution, albeit interim. I think within the dam safety program in two to three years there is a full job of work to go into that dam because as well as the spillway we are looking at the

big earthworks, if you like; that is probably a non-technical term but the earthworks of the dam itself. But it is safe.

Mr ADAIR - Yes, and we have advanced the capital program entirely on that one. As Lance has said, we have put in a temporary measure that reduces the risk there and we have advanced the overall refurbishment works that we were going to carry out on that dam anyway. I would say that in overall dam safety terms we have been moving the risk factors down progressively over the years. We are very pleased with the level of progress we have made and, as you know, we have that independently assessed every six months by a member from ANCOLD.

Dr GOODWIN - Are you able to provide some idea for us of how much you would spend on external legal fees, consultants and also travel?

Mr ADAIR - Yes, we could do, certainly. We could take it on notice but could I ask the context of the question?

Dr GOODWIN - There are areas that people often get concerned about -

Mr GREEN - What - at a corporate level or across the board?

Dr GOODWIN - Yes, travel and legal expenses. I am just trying to get a ballpark figure really as in the context of the whole operating expenses.

Mr ADAIR - I understand but, at the same time, our aim is to deliver a profitable business and that therefore we will incur costs accordingly.

Dr GOODWIN - I understand that.

Mr ADAIR - As long as that profit figure is growing that should be the critical figure and I think that is the context. But we will take that figure on notice.

Mr GREEN - You want legal and travel?

Dr GOODWIN - Just legal and travel. If it is possible to get a more detailed breakdown in general terms that would be great but I do not know whether that is possible.

Mr BALCOMBE - There are a couple of layers to that question as well. From a perspective of legal expenses there are the day-to-day legal costs and then, as we unwind Roaring 40s, they are complex transactions so we involved a local firm, Page Seager, to help us undertake it. That is a large M&A type transaction so they get costed to the project. That \$23 million profit we reported incorporated all the costs of undertaking that transaction. With respect to our travel, we do a lot of internal Tasmanian travel to get around our assets. Entura itself has a lot of travel to get to its customers. These numbers are quite large but we need to contextualise what drives that to some extent as well.

Dr GOODWIN - It is hard to get a picture of operating expenses just by looking at what is provided in your annual report. If it is possible to get a more detailed breakdown that would be useful, but I am in your hands.

Mr ADAIR - Dr Goodwin, can I say there is a reason for that. If you go and look at Origin and AGL -

Dr GOODWIN - I understand that.

Mr ADAIR - they are our competitors and we cannot reveal everything to our competitors. We have a much higher degree of disclosure than they do. We have to be careful; we operate in a competitive market and I am reluctant to give any of our competitors a free kick in terms of that information.

Dr GOODWIN - I completely understand that. That is why I am in your hands as to what you are able to release.

Mr ADAIR - Okay, we will look at that anyway.

Mr WILKINSON - There was an issue that I think the Auditor-General mentioned a few years ago in relation to corporate cards. I wondered how that is going. Obviously you have looked at it.

Mr BALCOMBE - That was in respect to the number of cards we had. So we have reduced the number. Basically we have been through the business and looked at the level of activity with regard to each cardholder's use and my recollection is that where we got down below a dozen transactions per annum we removed the cards, but they are still an important part of how we operate the business from the point of view of some of our small procurement activities and clearly as people are travelling and things like that it is part of that process as well.

Mr ADAIR - For the consulting business I think that we actually had to take them out. For the core business the number was reduced materially, but for the consulting business people obviously do not wish to be out of pocket when incurring expenses when they are on an assignment project. Therefore this is a good way of also itemising the costs that we recover from the client. I think that we have to bear in mind that any consultancy operates with everybody having a credit card, and that is the same for Entura.

Dr CREAN - They go through a very rigorous reconciliation of receipts and expenditure so the governance arrangements are very strong as a check and balance on expenditure.

Mrs ARMITAGE - In recent years the State Government has talked up opportunities for geothermal power. Has Hydro had any involvement in this area and what would your assessment be of the opportunities? Has there been any progress of note?

Mr ADAIR - We keep a watchful eye on all renewable energy technologies and we have liaison with the Australian Geothermal Energy Association. I think that it is fair to say that it is still under a watching brief. I do not see it making a major impact in the course of the next five years and I think that we have a much bigger agenda in terms of what we are doing with our core business than seeking to look at geothermal. Our ability I think is focusing on ensuring we get the best return for our scarce dollars. It would be very hard for us to justify any form of exploratory expenditure on geothermal.

Mrs ARMITAGE - I guess that would be along similar lines then to the forestry waste? I know that they have been looking for some involvement in energy generation.

Dr CREAN - The biomass.

Mr ADAIR - Biomass, again, is an opportunity that we would have a look at and we are more than happy to have a look at anything that is economic. I would say that if anything shows economic promise we will be onto it.

Dr CREAN - It has to be a mature technology and we have demonstrated that with our venture into wind, but we have this watching brief in terms of biodiesel as part of the King Island project converting the diesel generators into biodiesel.

Mr GREEN - As mining minister I understand what is happening in the geothermal space and the companies that are involved and potentially what that could mean because I am responsible for giving the exploration licences. You have to listen to the companies. As they always are, they are fairly excited about the potential for the particular niche they are in and in this case geothermal. They say we have very good granites and perhaps our fluids at depths that are reasonable depths, which is like gold when it comes to geothermal technology. Effectively it would be a base load amount. So it paints a whole different scenario.

Mr ADAIR - We watch the technology and if it shows any signs of economic promise -

Mrs ARMITAGE - A watching brief.

Dr CREAN - Yes, watching brief.

Ms FORREST - Let them spend their money.

Mr ADAIR - Absolutely.

Ms FORREST - If you are out there doing it, you are spending it.

Mr ADAIR - There are but how many geothermal projects do we have operating in the National Electricity Market? None.

CHAIR - If I can just add to that and obviously there is a lot of evidence, particularly in the Northern Hemisphere, of biomass from forest waste. It is being done right at the moment. So you are saying that you could pick that up at some stage?

Mr ADAIR - If it shows economic promise, Chairman, we would do and we are happy to have a look at it. This watching brief is not a question of our standing idly by because we have to watch it for our competitors. Remember, with regard to the renewable energy target, we are looking at what technologies we might be able to utilise. I think on the forest waste we are always prepared to have a good look at that. If it has reached the thresholds where it is economically attractive, we would be delighted to look further.

CHAIR - Thank you.

Mr HARRISS - Just on the back of that one, before I go to the question I wanted to ask, have you had any discussions with Forestry Tasmania about the viability of biomass electricity generation?

Mr ADAIR - We have a business development group that is looking at that. For myself, I can honestly say no. But from the business development group, I could ascertain what conversations they have and give you a separate answer on that.

Dr CREAN - But it would be in the watching brief area because the business development group are doing this in relation to a whole lot of things but it is a watching brief. It is desk-top stuff. We are not aware and I am not aware of any concrete discussions.

Mr GREEN - The fact is that the Commonwealth have made a decision with respect to carbon and biomass does not figure in it, does it?

Mr HARRISS - No. Bob Brown has made that decision for the Commonwealth.

Mr GREEN - There has been a history of biomass electricity generation in Tasmania for a long time and if and when the pulp mill gets up, it is another good example of them generating energy from wood waste. When I worked at the Burnie mill, we generated a lot of energy from wood waste, which is effectively biomass. So it has gone back into the grid, Norske Skog do it now. It is not something that -

Ms FORREST - On King Island the kelp industries do it too.

Mr GREEN - Yes. There are lots of examples.

Mr HARRISS - Okay, we will get the answer then as to where you are at.

Mr ADAIR - I must admit though, as the Chairman has said, for me the opportunity to use biofuels is real capability, particularly when you are looking at remote areas and the ability to have access to a solid production line that will give you biodiesel would be terrific. But it is finding those crops that will grow in marginal land and also the other sources, such as wood waste and what sort of volume you are talking about. How secure is your feed stock because, I can tell you, with any of these projects for biomass, you have to have the security of feed stock and the reliability of that to ensure the reliability of your plant.

Mr HARRISS - That is another debate. The expert review panel has been ticking over and I see from your comments in the annual report, Roy, I detect some nervousness about when I have a look at what you say there that there is significant industry uncertainty as a result of any action. You have diverted significant internal resources to responses to the expert panel and then you talk about how the imperative of the canvas for their report is set against your participation in the National Energy Market.

My first question is, what have been the significant internal resources that have had to be contributed to what the expert review panel is doing? Secondly, what is the industry nervousness or the risks or the sensitivity related to the possible outcomes?

[11.45 a.m.]

Mr GREEN - Can I just make one comment there in the first place. I think that the work that is being done by Hydro Tasmania has been to ensure that the information that the panel has to provide us with a report is accurate and so the accuracy in the report and the accuracy of the information has been a vital component from our point of view. The ability for Hydro Tasmania

to contribute is effectively on the back of the online employees that we have, and with some consultancies, but that has actually allowed us to facilitate that process. From my point of view, as minister, as with all of the energy businesses, I wanted to ensure that the panel had appropriate backing information on which to base any decisions it might make, so it was a worthy investment from that point of view.

Mr ADAIR - And I think that is absolutely right. To answer your question, we have necessitated making the appropriate allocation of staff to address all the questions and requests for information that we have received, and we have done so in a timely manner to ensure that they have a comprehensive fact base on which to provide their report.

Regarding the point I made about the canvass, it is to be remembered that Tasmania is not a separate market; it is within the National Electricity Market and therefore its canvass must be painted against its operation within the National Electricity Market and I think that is a *cri de coeur* that we are having that painted in that manner. It cannot be regarded as an insular market.

We are part of the National Electricity Market. Basslink has, as I have said earlier, inextricably linked us to the mainland and we are operating within that National Electricity Market and we have set up this business to deal successfully within that National Electricity Market.

Ms FORREST - Going to your financials, I am just trying to understand the financial assets and liabilities and I am looking at the notes on page 116, and I trust that I am on the right track here. In the case of the Basslink service agreement, my understanding is that the future payment obligations to the Basslink owner is reported as a liability and then a fair value of the future revenue streams under the inter-regional revenue is recorded as an asset, is that how it works?

Mr BALCOMBE - Correct.

Ms FORREST - This note here shows that the energy price derivative movement reconciliation goes from \$52 million to \$100 million, so you have a reduction in the net liability there and the same with the Basslink financial liability reconciliation, it goes from \$630 million down to \$554 million. How does that flow through to the profit and loss in your balance sheet because I cannot reconcile that?

Mr BALCOMBE - Thank you for asking that question. If you see the cross-reference halfway down that page to note 10 -

Ms FORREST - That did not help me either.

Mr BALCOMBE - They cross-reference to note 10 but if you think about our P&L, there are two components to it and I might just take you to it on page 88. Unfortunately, this is a sentiment of accountants getting involved in trying to complicate what should be simple. If you look at our profit and loss account, the number that we generally are focused on in the majority is the profit for fair value gains and losses and they are \$100 million and all the movements in those fair value movements -

Ms FORREST - The \$116 million you are talking about?

Mr BALCOMBE - Yes - are all reflected in the fair value movements further down the page under the 'Other comprehensive income' heading and then if you go to page 101 you will see some fair value gains and losses down the bottom of the page there, that is where it sort of ties in so the liabilities and assets will move from a fair value perspective. Those fair value gains go to the profit and loss account as fair value movements and then they are reported below the line.

Ms FORREST - So there is not a direct link then between the movements and either of these notes.

Mr BALCOMBE - There ultimately is, yes.

Mr ADAIR - But it is a fair value adjustment; that is the most important thing. If you look where cash is generated from, it is the profit before fair value gain.

Ms FORREST - Yes.

Mr BALCOMBE - This is reflective of when you have a contract and the market moves against that contract. So what happens is when you write a contract you know that you have a certain price but what happens is that at balance date each year, you have to mark that contract against the market.

Ms FORREST - But they may have shifted, yes.

Mr BALCOMBE - That is exactly what happens and this is reflecting that movement.

Mr ADAIR - Despite the fact that you are also contractually covered on that basis.

Ms FORREST - Yes, thank you.

CHAIR - In regard to a couple of industrial matters, you are using more local contractors or more contractors - labour hire companies if I can put it that way - as I understand it, to replace some of the -

Mr ADAIR - No.

CHAIR - So your outside workforce is stable?

Mr ADAIR - Our outside workforce is reasonably stable. I think we are using the appropriate contractors for the jobs that we have to have done so within the operating costs base, the use of those contractors would be reasonably stable. For capital works, it will depend clearly on the incidence and timing of those capital jobs and where we use the contractors. But our workforce on the technical and operation side is reasonably steady now and we would see no material movement, either way, in terms of that workforce.

CHAIR - So you are keeping those skill levels of people who have been there for some time and know how to pull a generator apart and put it back together? You are confident that you have that under control?

Mr ADAIR - That is an excellent point. Yes, we are. It is keeping those skills and the ability if somebody does decide to retire that we are able to bring them in on an appropriate

consulting piece to help train up the younger generation that have come through. But we are refreshing our workforce each year. We do recruit graduates and we do recruit apprentices.

I must admit we are delighted with the quality of the pick that we have had on both of those sources so we are constantly refreshing our base and I would say that we are fairly confident that we are retaining all the key skills that we need to.

CHAIR - Regarding your policy on safety or breaches of safety, it has been put to us that if there is a safety-breaching issue then the person or persons are stood down so they are on stand down. Then they go under investigation and that can go on for some time before they are reinstated, until the whole thing is sorted out. Is that the best process? It would appear to have provided some stress for them in the workforce.

Mr ADAIR - I do not believe so. I think if there is any such incident we act very promptly indeed and we have had an incident where an individual did breach our safety requirements and it was material requirements. We looked at that, reviewed it instantaneously and we agreed that dismissal on that basis was the way to review it. That action was taken very quickly. So we do not have any prolongation there and I think, Chairman, if you look at the safety record here, we are proud to say that since disaggregation we passed a milestone for the first time which was that we achieved a million hours without a lost-time injury incident and our lost-time injury frequency rate is now down to 0.6 per cent, which is a fantastic improvement.

CHAIR - They are good figures. But could I also put it to you that maybe some safety breaches go unreported because employees do not really want to put themselves forward and then put a workmate under investigation or anything else, is that a fact?

Mr ADAIR - No, that is not true. Fundamentally, we encourage all near misses; the culture that we have is a very strong safety culture and there is not a blame culture attached to this. It is one of our improving our processes and systems so that our safety is continually improving and therefore we have an openness and a transparency which encourages the reporting of all near-miss incidents. Therefore nobody is going to get blamed for reporting something; far be it from that, in fact they are complimented on the transparency on raising the issue so that we can improve our systems. I think the proof of that is in the track record of our safety record.

Mrs ARMITAGE - I think it was more too that they were not going to get blamed but they thought the person they were reporting might have lost their job.

Mr ADAIR - There again the individual will not be blamed on that basis. We would investigate a particular incident, see where the breach potentially arose and as a result of that, identify whether it was a system issue or whether it was a human error issue and then what we need to do to ensure that such a breach cannot occur again.

Mrs ARMITAGE - How many new apprentices did you take on last year?

Mr ADAIR - From memory, about 10.

Ms FORREST - On the safety thing, Mr Chairman, how many near-miss events were reported in the last year? I tried to find it in here.

Mr ADAIR - We can give you the figure because we do watch that. The pyramid is if you go through your near misses and medical treatment, injuries and all of those things, the aim is that if you are going to achieve zero at the apex, then you would expect these to drop down over time. The only way that you can improve on that system is to ensure the near misses. We have a safety executive management meeting every month where we look at these instances and we check to ensure that reporting is still taking place. We watch very carefully from which part of the business there may be a deficiency.

Ms FORREST - It would be helpful to be able to compare that over the last five years, if there is a claim that there is a reluctance to report, if the reports are similar -

Mr GREEN - What are we getting at here? Has there been some discussion with respect to this aspect?

CHAIR - With the safety aspect?

Mr GREEN - Yes.

CHAIR - Yes.

Mr ADAIR - With regard to Hydro Tasmania?

CHAIR - Yes.

Mr ADAIR - I am surprised.

Mr GREEN - In what forum?

CHAIR - It was given to us in a stakeholder meeting.

Mr GREEN - Okay. From my point of view, I am open to understanding what the issues are and if there are issues I will be listening to what the CEOs have to say. We are not trying to breed that sort of culture. I would not be an advocate for that sort of culture - certainly not. I would want people not to have any fear with respect to their own position or the people that they are talking about if that is the case because that is the only way that you can take people forward with confidence in your confidence.

Mr ADAIR - We have an open and transparent arrangement so I am surprised at that. If I could have the details without any names at all, I am more than happy to look at that and give you a report.

CHAIR - We like to surprise you every now and again.

Mr ADAIR - And you have, Chair.

Laughter.

Mr ADAIR - Because we were priding ourselves on the fact that our safety culture is now really strong. Our aim is: no harm to anyone at any time.

Mr GREEN - If you want to filter that through me and my office, I am more than happy to do that.

CHAIR - We can do that. We are virtually about done at 12 o'clock, Minister. I have a very small question and I know that Dr Goodwin is getting a knitted brow again, so I will be very quick. Cloud seeding. Has that increased in frequency at all this year?

Mr GREEN - Normal.

CHAIR - I have some constituents who are always complaining about it because they do not get enough rain out of it.

Ms FORREST - Me too, but for the other reason.

Mr ADAIR - Ms Forrest, can I address your concerns there and say there has been no increase in cloud seeding above the levels of previous years.

Mr GREEN - What is a knitted brow?

Ms FORREST - Haven't you heard that term?

Mr HARRISS - You have got one now.

Mr WILKINSON - A little bit of Botox.

CHAIR - Order.

Dr GOODWIN - My burning question relates to IT. On page 17 of the annual report you talk about the need for some further investment in IT and I am just trying to get a picture of what that is.

[12.00 p.m.]

Mr GREEN - In their reports to me the CEO and the Chair brought me up to speed with their need and requirement to upgrade the IT system.

Mr ADAIR - That is fundamentally right. I think one of the key pieces of work we undertook in the course of the year 2010-11 was a review of our IT strategy. Many of our systems are tweaking at the edges. Remember I said it is about positioning the business for the future? Well what we have done is looked at our capital spend figure and sought to smooth it so that we can absorb the replacement of these. Our asset management system that needs to record a lot of history which we can use when we are then looking at the planning of work is an example. That really is almost in the Dark Ages by comparison.

Mr BALCOMBE - And it is unsupported.

Mr ADAIR - These systems have grown inevitably like Topsy. So what we are looking for is a far more efficient integrated system that has one source of data capture that feeds all the appropriate systems and that is what the CASPaR project is all about. That brings significant savings in terms of the operation of these systems and it also makes the business that much more efficient because you are not tied up. There are the opportunity costs of people then being

released to do critical work instead of patching up the system as they are going along. We have been through a fundamental look-see of those systems and we know where we need to spend the money. The CASPaR system is the enterprise system that covers all your financials, human relations and asset management. Then there is the energy trading and risk management that is an important part. Going back to the point that we made earlier, our aim is to ensure that we keep all of our risks under close control and management and that helps us do it in real time.

Dr GOODWIN - How much do you need to spend on that?

Mr ADAIR - We will be spending around \$50 million.

Mr BALCOMBE - Over several years.

Dr CREAN - Not in one year.

CHAIR - Okay, thank you. The time has now come so on behalf of the committee, Minister, might I thank you and your good team at the table. Thank you very much for your information.

Mr GREEN - May I take the opportunity to thank the Chair, the CEO, the CFO and David Jeffrey for the work that he does to prepare all the documentation for you today.

CHAIR - Thank you very much.

The committee adjourned at 12.02 p.m.