



PARLIAMENT OF TASMANIA  
Legislative Council

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# **GOVERNMENT BUSINESSES SCRUTINY COMMITTEE 'A' 2017**

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## **Report with Minutes of Proceedings**

### **Members of the Committee:**

Hon Robert Armstrong MLC  
Hon Craig Farrell MLC  
Hon Ruth Forrest MLC  
Hon Mike Gaffney MLC (Deputy Chair)  
Hon Greg Hall MLC (Chair)  
Hon Sarah Lovell MLC  
Hon Rob Valentine MLC

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# MINUTES

**WEDNESDAY, 6 DECEMBER 2017**

The Committee met at 10.54 am in Committee Room No. 2, Parliament House, Hobart.

**Present:**

*Mr Armstrong*

*Mr Farrell*

*Ms Forrest*

*Mr Gaffney* (Deputy Chair)

*Mr Hall* (Chair)

*Ms Lovell*

*M Valentine*

**Apologies:**

Nil

**In Attendance:**

*Mr Stuart Wright* (Secretary)

*Ms Gabi Woods* (Secretary)

*Ms Allison Waddington* (Executive Assistant)

**Minutes:**

The Minutes of the meeting held on Wednesday, 22 November 2017 were confirmed as a true and accurate record.

**Correspondence:**

The inwards and outwards correspondence was endorsed and received.

At 10.55 am the Committee commenced informal discussions with stakeholders.

(*Ms Lovell* left her seat at 11.40 am)

(*Ms Lovell* took her seat at 11.43 am)

(*Mr Armstrong* left his seat at 11.56 am)

(*Mr Armstrong* took his seat at 11.57 am)

The Committee suspended at 12.21 pm.

The Committee resumed informal discussions with stakeholders at 2.35 pm.

(*Ms Lovell* took her seat at 2.40 pm)

(*Ms Lovell* left her seat at 2.56 pm)

(*Ms Lovell* took her seat at 3.01 pm)

(*Ms Lovell* left her seat at 3.12 pm)

The Committee suspended at 3.17 pm.

The Committee resumed informal discussions with stakeholders at 3.30 pm.

(Ms *Lovell* took her seat at 3.36 pm)  
(Mr *Armstrong* left his seat at 3.37 pm)  
(Mr *Armstrong* took his seat at 3.40 pm)  
(Mr *Farrell* took his seat at 3.43 pm)  
(Ms *Forrest* left her seat at 3.58 pm)  
(Ms *Forrest* took her seat at 4.00 pm)  
(Mr *Hall* left his seat at 4.32 pm and Mr *Gaffney* took the Chair)  
(Mr *Hall* took his seat at 4.38 pm and resumed the Chair)  
(Mr *Armstrong* left the meeting at 4.51 pm)  
(Mr *Gaffney* left the meeting at 4.59 pm)

The Committee suspended at 5.01 pm until 8.50 am on Thursday, 7 December 2017.

#### **THURSDAY, 7 DECEMBER 2017**

The Committee resumed at 9.02 am in Committee Room No. 1, Parliament House, Hobart.

##### **Present:**

Mr *Armstrong*  
Mr *Farrell*  
Ms *Forrest*  
Mr *Gaffney* (Deputy Chair)  
Mr *Hall* (Chair)  
Ms *Lovell*  
Mr *Valentine*

##### **Apologies:**

Nil

##### **In Attendance:**

Mr Stuart Wright (Secretary)

## **HYDRO TASMANIA**

At 9.02 am the following witnesses appeared before the Committee:

**Hon Guy Barnett MP**, Minister for Energy  
**Mr Grant Every-Burns**, Chair  
**Mr Stephen Davy**, Chief Executive Officer  
**Mr Wally Borovac**, Chief Financial Officer

The Minister provided a brief overview and the Committee proceeded to questions.

(Mr *Armstrong* left his seat at 9.38 am)  
(Mr *Armstrong* took his seat at 9.39 am)  
(Ms *Lovell* left her seat at 10.27 am)  
(Ms *Lovell* took her seat at 10.29 am)

### **Questions on Notice**

In relation to the generation of electricity from gas since 2006, how does this compare with what was in the Basslink business case from 2006-17?

### **Tabled Documents**

Momentum Energy – Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

The Committee suspended at 10.39 am  
The Committee resumed at 10.53 am

(Mr *Valentine* took his seat at 10.54 am)  
(Mr *Armstrong* left his seat at 11.10 am)  
(Mr *Armstrong* took his seat at 11.13 am)  
(Mr *Armstrong* left his seat at 11.18 am)  
(Mr *Armstrong* took his seat at 11.25 am)

The witnesses withdrew at 11.42 am

## **TASNETWORKS PTY LTD**

At 11.43 am the following witnesses appeared before the Committee:

**Hon Guy Barnett MP**, Minister for Energy  
**Dr Dan Norton**, Chair  
**Mr Lance Balcombe**, Chief Executive Officer  
**Ms Bess Clark**, General Manager Strategy and Stakeholder Relations  
**Mr Ross Burridge**, General Manager Finance & Business Services  
**Mr Wayne Tucker**, General Manager Strategic Asset Management

The Minister provided a brief overview and the Committee proceeded to questions.

(Mr *Hall* left his seat at 12.27 pm and Mr *Gaffney* took the Chair)  
(Mr *Hall* took his seat at 12.32 pm and resumed the Chair)

### **Question on Notice**

To date, how many faulty Cable PI's have been recovered?

The Committee suspended at 1.00 pm  
The Committee resumed at 2.03 pm

(Ms *Forrest* took her seat at 2.04 pm)  
(Ms *Lovell* took her seat at 2.06 pm)  
(Mr *Armstrong* left his seat at 2.29 pm)

The witnesses withdrew at 3.00 pm.  
The Committee suspended at 3.00 pm  
The Committee resumed at 3.03 pm

## **TASMANIAN PORTS CORPORATION PTY LTD**

At 3.03 pm the following witnesses appeared before the Committee:

**Hon Rene Hidding MP**, Minister for Infrastructure  
**Mr Stephen Bradford**, Chairman  
**Mr Paul Weedon**, Chief Executive Officer  
**Mr Geoff Duggan**, Chief Financial Officer

The Minister provided a brief overview and the Committee proceeded to questions.

(Mr *Armstrong* took his seat at 3.09 pm)  
(Ms *Lovell* left her seat at 3.33 pm)  
(Mr *Armstrong* left the meeting at 3.34 pm)  
(Ms *Lovell* took her seat at 3.35 pm)  
(Ms *Forrest* left her seat at 3.44 pm)  
(Mr *Hall* left his seat at 3.45 pm and Mr *Gaffney* took the Chair)  
(Ms *Forrest* took her seat at 3.46 pm)  
(Mr *Farrell* left the meeting at 3.58 pm)  
(Mr *Farrell* took his seat at 4.00 pm)  
(Mr *Hall* took his seat at 4.02 pm and resumed the Chair)  
(Ms *Lovell* left her seat at 4.03 pm)  
(Ms *Lovell* took her seat at 4.09 pm)  
(Mr *Armstrong* took his seat at 4.33 pm)  
(Mr *Armstrong* left the meeting at 4.40 pm)

### **Question on Notice**

A copy of Southern Export Terminals Pty Ltd current financial report

Tasports headcount per office location as of 2006 and 2017

The witnesses withdrew at 4.55 pm

**Other Business**

The Chair (or southern based Member) is to present the report of the Committee to the President out of session during the week commencing 18 December 2017 (subject to the availability of the President) at a time to be confirmed.

**Next Meeting**

At 4.00 pm on 13 December 2017 (CR2 and via teleconference).

**Adjournment**

At 4.55 pm the Committee adjourned until 13 December 2017.

DATE: 13/12/17

CONFIRMED

A handwritten signature in blue ink, consisting of a stylized 'S' followed by a horizontal line.

CHAIR





## APPENDIX – TRANSCRIPTS OF PROCEEDINGS



**7 December 2017**



**PARLIAMENT OF TASMANIA**

**LEGISLATIVE COUNCIL**

**GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A**

**HYDRO TASMANIA**

**HON. GUY BARNETT MP**

**Thursday 7 December 2017**

**REVISED EDITION**



# UNCORRECTED PROOF ISSUE

Thursday 7 December 2017 - Legislative Council - Government Businesses Scrutiny Committee A - Hydro Tasmania

## LEGISLATIVE COUNCIL

## GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Thursday 7 December 2017

### MEMBERS

Mr Armstrong  
Mr Farrell  
Ms Forrest  
Mr Gaffney  
Mr Hall (Chair)  
Ms Lovell

### IN ATTENDANCE

Hon. Guy Barnett MP, Minister for Energy

Ministerial Office

Dr Michael Connarty, Senior Adviser

Hydro Tasmania

Mr Grant Every-Burns, Chairman  
Mr Stephen Davy, Chief Executive Officer  
Mr Wally Borovac, Chief Financial Officer  
Ms Eleanor Inglis, Acting Government Relations Manager

The Committee met at 9 a.m.

**CHAIR (Mr Hall)** - Good morning, everyone. Welcome, minister. Would you like to make an opening statement?

**Mr BARNETT** - There have been some excellent outcomes for Hydro Tasmania in 2016-17 and also some exciting developments have occurred over the past 12 months. Hydro Tasmania is playing a key part of our Tasmania First energy policy and has helped manage electricity prices, keeping them low as well as promoting renewable energy opportunities. Hydro Tasmania has rebounded strongly from past challenges and has helped in the development of a strong, new vision

for Tasmania's energy future. As promised, Hydro Tasmania has rebuilt the storages and restored profitability after the energy supply challenges of 2015-16. Hydro Tasmania has comfortably exceeded its storage target of 30 per cent at the end of June this year and has already exceeded the next target of 40 per cent by the start of summer. Storages at the start of this week were 45.1 per cent and yesterday were 45.5 per cent. Good news there. This strategy is part of the Government's new energy risk framework developed by the energy security taskforce in conjunction with Hydro Tasmania.

In the last financial year Hydro Tasmania delivered an underlying profit of \$20.1 million. That result is significantly better than forecast. Hydro Tasmania has also reduced net debt by \$89 million to \$733 million at 30 June 2017. It is working on positioning itself and the state to play a significant role in supporting Australia's transition to a clean energy future. That is leading to 100 per cent full self-sufficiency in renewable energy generation by developing a further 1000 gigawatt hours by 2022 - fully self-sufficient by 2022. Part of that is Granville Harbour wind farm development and part of it is the Goldwind Cattle Hill wind farm development.

Hydro Tasmania is acting to keep power prices low and protecting businesses from soaring wholesale prices on the mainland by reducing wholesale prices in Tasmania by around 20 per cent. The Government implemented a \$20 million energy rebate for non-regulated customers to further reduce their exposure to the extreme prices being seen in the National Electricity Market - NEM. The National Electricity Market has a significant influence here. I can speak more about the National Energy Guarantee - NEG - in due course if questions allow.

Hydro is keen to support the battery of the nation initiative, which is investigating and developing a pathway of future development opportunities in Tasmania that could mean another 2500 megawatts of capacity and would create up to 3000 jobs. That is more than \$5 billion-worth of investment over a 10- to 15-year period. Aligned to the Battery of the Nation project is the ongoing focus of reinvesting in existing assets. In 2016-17, more than \$86 million-worth of capital works was completed to ensure the long-term sustainability of Hydro Tasmania's generation assets. This is approximately a \$1 billion investment over the next 10 years.

Chair, you can see that Hydro Tasmania has rebounded well and the Tasmanian system is well placed for the future. We are in many respects the envy of the nation with over 90 per cent of our energy from renewable sources. Most of this is well managed by Hydro Tasmania.

Thank you. I will pass to our Chair.

**Mr EVERY-BURNS** - Thank you, minister. I agree wholeheartedly.

When I sat here last year we were talking about the issues of the energy supply challenge. We promised to rebound strongly from that. By this time last year the Basslink cable had been repaired, rainfall had substantially returned and we said Hydro Tasmania was on a path for recovery. That is what has happened, as has been reflected.

Throughout the year we have busily supported the Tasmanian energy security taskforce and the Public Accounts Committee in their mission to bolster Tasmania's energy security. We have sought ways to re-engage with the Tasmanian community that in part we let go while we were so busy working on the supply challenges. We are actively into that space again now. We are forging an ambitious but achievable vision to help lead Australia through the transition to the low-carbon economy which will involve Tasmania playing a part to become the battery of the nation.

We understand that Tasmanians want secure and affordable electricity and I believe we are on a path to achieving that. The challenges of the past have been very significant. We have addressed those. I see the challenges ahead as also being quite substantial but we are in a good space to address those issues.

The financial result for 2016-17 is an underlying profit of \$20.1 million, which was substantially better than we had planned initially. The reduction of net debt by \$89 million to \$733 million was also very good from our point of view.

Minister, you have addressed the energy security matter. We are indeed 45.5 per cent water now, which sits above the target of 40 per cent for December according to the prudent storage levels recommended by the taskforce. That means we are operating in the commercial zone, which is a great place to be.

A week ago the Tasmanian Economic Regulator's first annual energy security review came out and noted that we are now in a strong enough position to withstand a repeat of what had happened in 2015-16. It is not getting to the levels we did at that point in time and putting us in a much safer, more secure position.

With a year of recovering consolidation, we are well placed to lock in Tasmanian energy security and achieve low power prices while we move to the newest initiatives.

I reflect on our mainland retail business, Momentum Energy. It is one of the fastest growing retailers in Victoria. It had a good year in 2016-17. During the year we implemented a customer relations IT system we are particularly proud of. It now allows Momentum to engage with its customers, at a level probably better than the majors. It is a very good future investment and has gone well for us.

Our engineering company, Entura, continues to work in the international space and is now one of the go-to companies for advice on Hydro power and pump storage. We have work in Uganda, India, Nepal, the Republic of the Marshall Islands and domestically.

It is public knowledge we are at the leading edge, advising or doing a feasibility for the Kidston Pumped Storage Hydro Scheme in Queensland. We were advising on that before it became a very popular thing to examine so we are in a good place.

In conclusion, Australia is seeking new solutions for energy affordability, security and carbon omission reduction. Hydro Tasmania have been doing this for about 100 years. We have learnt a lot from our own energy issues in the years past and are now in a good place to play a proper role for the nation.

Thank you very much.

CHAIR - Thank you. Minister, I will open with one general question and then open to the committee. Something topical all year, we have two umbilical cords to the mainland, the gas pipeline and the Basslink cable. We have had different commentary from different entities, political parties et cetera that the state Government and/or Hydro should purchase them both.

What is the Government's view on those two matters?

## UNCORRECTED PROOF ISSUE

**Mr BARNETT** - Thank you very much, Chair. That is a very big question in regard to both the gas pipeline and Basslink so if I can take them one at a time.

In terms of Basslink, the current owner has recently made a public announcement they are looking at a strategic review of their asset and may look forward to seeking expressions of interest. That is a matter for them.

The first point is energy security is and will not be compromised under this Government. It should be noted that it has been sold in the past and may be in the future to some other entity. We are monitoring the situation very carefully as a state government, and likewise with Hydro.

In terms of the gas pipeline, to make it clear, it is not for sale. It has not been publicly announced as for sale. We have no intention of proceeding down that track. It is a regulated asset so that does allow for a fair arrangement to be achieved by the state Government, Hydro and various commercial entities in Tasmania that rely on gas. We have no intention at this stage of considering that asset because it is not for sale and that is not our intention.

**CHAIR** - We might explore the matter of a second Basslink cable at another time.

**Mr ARMSTRONG** - Pumped Hydro was all the talk a few months ago. Can you elaborate on where you are at with pumped Hydro?

**Mr BARNETT** - Yes, you have made a very important point for Tasmania and we support it. We support it in the context of a second interconnector. You cannot maximise the outcomes of pumped Hydro unless there is a second interconnector, as the capacity in the existing interconnector of about 650 megawatts is not adequate. To achieve the maximum outcomes of pumped Hydro, a second interconnector is essential. The Premier recently announced with Josh Frydenberg, the federal minister, further steps towards a second interconnector, a \$20-million further study.

Pumped Hydro - the option there is a doubling of our energy output in Tasmania. This is very exciting. If this can be, this would be based on a \$5-billion investment over a 10- to 15-year period and some 3000 jobs. It is a huge, long-term investment opportunity for Tasmania and it would deliver renewable energy development, jobs galore and terrific investment progress into the future. This is vision in action. We have started with the announcement that the Australian Renewable Energy Agency - ARENA - with \$10 million from federal and \$10 million from the state will be working with the Tasmanian Government and specifically with TasNetworks to bring the business case forward for a second interconnector.

We are very supportive and Hydro is already doing a lot of work on it. I met with the team a few weeks ago; Steve can outline more details with regard to the benefits of pumped Hydro if you would like. As a committee, it is up to you.

**CHAIR** - Yes, thank you, minister. Perhaps we ought to focus a little on that matter, members of the committee, on the pumped Hydro and second interconnector, while we are on it so we do not get confused.

**Mr VALENTINE** - My question is related to that in terms of storage levels because of the possibility of the second interconnector. What modelling are you using to say what your storage levels need to be to cope with the demands that might come as a result of a second interconnector?



## UNCORRECTED PROOF ISSUE

We have seen some interesting events over time. We have had the diesel generation issue because of low storage levels. We have fixed that, but what modelling are we using to predict what the storage levels need to be?

**Mr BARNETT** - Good question. On some of the operational matters, I will pass to Steve as the CEO and then we can drill down on that a little further.

**Mr DAVY** - First, a bit more detail about the purpose of the pumped Hydro, the system and the way the three investment opportunities will go together to make Tasmania the battery of the nation. Tasmania has a fantastic wind resource and there are many people who are looking at developing additional wind power in Tasmania. Two recent projects have been announced at Cattle Hill and Granville Harbour. With those two projects, we will be very close to being fully self-sufficient in terms of renewable energy on the island, which is very important.

There is much more potential for Tasmania and we have proponents talking about a large wind farm on Robbins Island and other parts of Tasmania. For those projects to ahead, that would go hand in hand with the extra interconnection. Most likely, if there was to be extra interconnection, there would be extra wind farm development in Tasmania.

The management of storages can't be seen just in the light of our water and storage and the current wind farm make-up in Tasmania. More on-island generation would supply an excess of power in Tasmania. There would be more power now being produced in Tasmania because of the extra wind farm development. The second interconnector would be to make sure that the additional wind power had a market on the mainland. The two must go hand in hand.

**Mr VALENTINE** - Wouldn't base load be the main issue there? Wouldn't you need base load to satisfy the demands from -

**Mr DAVY** - Yes. Initially that storage management would be how to coordinate the operation of the hydro system with the new wind that's in Tasmania to make sure that our storages were managed in a way that was sustainable given that new make-up. The modelling we would need to do would depend on the actual make-up of the amount of new generation on the island at the time. The whole process the Energy Security Taskforce recommended that has now been set up requires a reassessment of all those storage levels once there's a change in the supply and demand dynamics in the state. There is a mechanism already built into that framework to make sure that should things change, such as more interconnection and more generation available on the island, those calculations are redone. It's not just Hydro Tasmania that would make new calculations; with the process the Government needs to run to understand what those new prudent levels should be, those would have to be recalculated each time there was a substantial change in the supply-demand dynamics.

**Mr BARNETT** - ARENA, the federal government's Australian Renewable Energy Agency, and Hydro are already in a joint venture assessing the top 10 to 15 options for Tasmania in terms of pumped hydro. As you know, the Prime Minister is very keen on it, so as a result of that and Hydro's initiative, we've joined together so that funding and those studies are underway. They are drilling down to find the top and the best options for pumped hydro. That is exciting work and is proceeding very positively. Drilling that 15 down to 10 and then down to the top few, we can seriously look at those to consider further investment opportunities. That work is ongoing and progressing.

**Mr GAFFNEY** - We heard from stakeholders yesterday and others who have said, and I quote from the Tasmanian Renewable Energy Alliance in its submission to the Finkel review -

We have argued that this large-scale development is not necessary' - this is about the second interconnector - 'and is not a cost effective way of meeting Tasmania's requirements for energy security.

In light of the business case, the \$10 million from the federal government and the state Government, has the decision already been made to get a second interconnector and are you putting a business case forward to support that position? Or is the money being used to analyse further some of the concerns other people have regarding the need and the viability, and financial opportunities that the interconnector has? I am a bit confused about what the \$20 million is for. Is it to support the case that we've already decided to make it, or is it to analyse whether that is what we really need in this state? We have heard many people say that it's not the best way to go and it's financially not what we want to lock ourselves into.

**Mr BARNETT** - I can see where you are coming from and understand the question. It comes out of the Tambling report and Warwick Smith, who did some work on this in the past years. Our Government certainly supports in principle a second interconnector subject to a business case and subject to it stacking up economically and in every sense. The further work under this joint venture that is now in place between TasNetworks and ARENA, and Josh Frydenberg and the Premier's announcement some weeks ago essentially progresses that business case.

The work they will be doing is looking at the capacity of the cable, how big it is, what sort of capacity is required, the geography of where the cable should actually be across the Bass Strait so it connects in the right position, and also the financial modelling. It has to be profitable and sustainable and who would actually invest in such a cable to make it worthwhile, because that is a key and fair question. In that regard, I was delighted to hear Mr Frydenberg standing next to him at the announcement when he referred to the second interconnector asset as 'national infrastructure' because our federal colleagues know how important it is that they have access to renewable energy. They know how important it is that they have access to dispatchable energy, which is base load, which is what Rob Valentine has been referring to, and the importance of base load power, which injects reliability into the system on the back of problems in Victoria and South Australia last year. They know how important it is to have renewable energy or clean energy. Tasmania has bucketloads. In fact, our target is for 100 per cent renewable energy and self-reliance by 2022.

**Mr GAFFNEY** - Minister, thank you. It is interesting, when you hear a business case put forward, it is like: here is a proposition and how can we manage it and get it to fruition? But from what you have just said, it still seems to me it is more of an assessment process to see if somebody else is going to pay for it, which would be a bonus. If it comes down to Tasmania being the one paying for it, that is a bit of a concern. It is an assessment process and then, from that, there will be further -

**Mr BARNETT** - As I have indicated, we have a 'Tasmania-first' energy policy. The key priority there is the lowest-cost power - and our target is the lowest-cost power in Australia by 2022. Any decision must be consistent with our 'Tasmania-first' energy policy: secure power, lowest-cost power, and of course we support the renewable and fully self-sufficient power, by 2022.

That is our objective. Any business case must be consistent with that. We believe, based on the feedback we have had from the federal government, that they believe it is national infrastructure.

They believe this will support the national energy market. As Steve has indicated, and the Government's position is, this is only exporting excess power.

We have to get to that 100 per cent by 2022, then we will be able to export our excess power. We want that to benefit Tasmanians, to ensure the lowest-cost power and to make it sustainable. We are very supportive. As a minister, I am very supportive of the merits of it and, of course, it must stack up.

**Mr FARRELL** - The TFGA raised concerns with pumped hydro because farmers usually irrigate and pump in off-peak times. If Hydro is using pumping in off-peak times, is it going to affect the domestic price of off-peak power for the farmers if the demand for off-peak power goes up?

**Mr BARNETT** - I think we are getting into the detail there. I will perhaps ask the CEO to respond. Obviously, we would want to and will continue to consult with all the key stakeholders. The TFGA is a very important part of our fabric in Tasmania of the agricultural sector. We have plans to grow it significantly, 10 times by 2050. In terms of any further reflections, the CEO.

**Mr DAVY** - Probably if I can continue on the question of the purpose of pumped hydro and how that would work in our system. The idea of the Battery of the Nation study is that we are plotting a path to see whether Tasmania can be a major contributor to the national market beyond the ability to meet its own demands for renewable energy.

If we do, and if it proves to be commercial and a good thing for Tasmania, if we get to the stage where there is a large excess of renewable power in Tasmania, that will create a lot of opportunity for pumped hydro because there will be, at times, more wind and potentially more solar generation in Tasmania than the demand.

At that point, off-peak energy or energy when there is an excess supply - because off-peak and peak will not really mean the same thing by then, it will be 'Is there a lot of wind blowing?' or 'Is there a lot of sun shining?' - the electricity that is available for storing at pump storage will be very cheap. In fact, if we do get to the future situation where pump storage makes sense to build, it will already mean that off-peak power, or power when there is excess wind generation or excess solar generation, will already be very cheap. If I were an irrigator looking for low spot prices to pump in, this future would probably create that outcome rather than prevent it.

**Mr FARRELL** - You mentioned the other choices of energy generation - thermal, wind and that type of thing - do you have a preference for which way you will steer the company in future energy development?

**Mr BARNETT** - We support renewable energy as a government and we have a target to be fully self-sufficient by 2022. We are not wanting to say, 'This is the best way to go or that is the best way'; it has to be based on a sustainable future that makes economic sense.

**Mr DAVY** - One of the studies we are doing with the ARENA co-funding is to understand how Tasmania fits into a future energy mix. We think that technically and looking at Tasmania's potential, using a combination of more interconnection, wind, pumped hydro and more hydro capacity is something that can be done. We are well on the path to understanding how much that might cost. The study is also making sure that we understand how those opportunities compare to all the other forms of technology.

## UNCORRECTED PROOF ISSUE

What we want to do is work out how we can help Tasmania by investing in these assets. If the answer is Tasmania is better off not investing because either other technology turns out to be more cost-effective or other parts of Australia can do the same things Tasmania can do but do it more cost-effectively for the region that they are serving, that is what we will work out from the study.

The study is to understand the opportunity for Tasmania, not to jump to a conclusion early.

**Mr FARRELL** - Are you confident that 12 months is long enough to gather all this? There are so many different options and opportunities out there that it seems a fairly short time frame.

**Mr BARNETT** - There are two parts here. One is the second interconnector study that was announced as a 12-month study. That is ambitious but I hope is achievable. The federal minister is specifically hoping that will be achieved. We will do everything we can to progress that.

With respect to the pumped hydro opportunities, they are ongoing and the research is ongoing. The work between ARENA and Hydro is already underway and continuing, nailing that 15 down to 10 and down to a short list. In the first half of next year I think we will see more reports and I will be delighted to share them with the Legislative Council and others.

That work will also be ongoing. Hydro has a team of people involved in pumped hydro and looking at these issues. That has been continuing for some time and will continue well into the future. We are quite positive about it, we are excited about it, and Hydro has a team working on it and that will be ongoing.

**Ms FORREST** - I want to talk about the second interconnector. As Mike alluded to, there are various views on that. I think it is important to understand how the first one went. I have a few questions on that before we look at the second one.

When I read the expert panel report - I know you wouldn't have one in front of you - on page 46, volume 2, it was stated -

... that as a result of lower than expected opening water storage levels, Hydro Tasmania was prevented from running down its inventory in water in the initial years to generate export income.

The Basslink case depended on running down water storage in the early years. Is that correct? For it to work, it would have to run down the storage in the first few years.

**Mr BARNETT** - Which years are we talking about?

**Ms FORREST** - Back in 2006.

**Mr BARNETT** - You are talking all the way back to 2005-06.

**Ms FORREST** - Yes, I am talking about the business case for that. We are talking about the business case for a second one, but we need to understand the business case for the first one.

**Mr BARNETT** - Could you repeat the question?

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - The expert panel noted -

... that as a result of the lower than expected opening water storage levels, Hydro Tasmania was prevented from running down its inventory in water in the initial years to generate export income.

So the first Basslink case depended on running down water storages in the early years, is that right?

**Mr BARNETT** - I think that is a view you have picked out, one quote from one report. I am sure there would have been a range of issues and views put forward to support the business case to progress the first Basslink, as you referred to it. On behalf of the Government, I can't say that was the only view.

**Ms FORREST** - Maybe Hydro can answer it.

**Mr BARNETT** - The Government's position would not be saying that is the only position. There would be a whole range of measures and key performance indicators in terms of the sustainability and profitability of the Basslink cable. I don't want the Government to be put in a position to suggest that that is the only profitable way to go. I am happy for the CEO to share some observations. This is 2005-06, 12-odd years ago.

**Mr DAVY** - If I can remember back that far. I joined Hydro Tasmania not long before the cable was connected. I did not work for Hydro Tasmania and no-one here worked for Hydro Tasmania while the business case was going on. Nonetheless, it was a dry period back in 2005, 2006, 2007. I recall that in about 2006 we decided to purchase some of the open-cycle gas units that were installed at the current Tamar Valley Power Station because of the dry conditions. We also brought back on line the thermal power station, the now out-of-service Bell Bay thermal power station next door to the current Tamar Valley Power Station.

As to the work the expert panel did - which I think was 2009-2010 - at that point, putting aside whatever was in the business case which we couldn't do much about by 2009-10, we calculated that the benefits of the Basslink project for Tasmania exceeded the costs. We'd been through a dry period and the cost of importing power from Victoria over that period compared to the cost of having to install and run whatever new generation might have been required was exceeded when we added the benefits of buying and selling across the link and not having to install the extra generation that might have been required should the link not have been there during that dry period of 2006-08. For the few years we could look at back then we had worked out that that first interconnector had proven to be a reasonable deal for the state.

**Ms FORREST** - The original business case showed Basslink allowing for net exports almost every year, but that wasn't the reality, was it? The business case was based on Basslink allowing net exports in almost every year, but that didn't occur, did it?

**Mr BARNETT** - I want to be very clear -

**Ms FORREST** - I am just trying to establish what the business case for the first one was. This is the point raised by Mike.

**Mr BARNETT** - There is a suggestion, there may be a suggestion, and if there is a suggestion, I want to be very clear that the Government's position on prudent water levels is very strong. They have been raised. Energy security is a top priority and it will not be compromised under our Government. If the suggestion is the prudent water levels would have to be reduced to an inappropriate level to make the business case for a second interconnector, we would reject that proposition. Energy security is a top priority, it is one of our Tasmania First energy priorities, together with the lowest possible power prices.

**Mr DAVY** - One of the reasons things haven't quite worked out as envisaged when Basslink was planned was that the assessed long-term average inflows were higher back in the 1990s than we now believe them to be. Up until -

**Ms FORREST** - On that point, Steve -

**Mr DAVY** - Sorry, can I finish my answer please; I think it is important to the question you are asking.

**Ms FORREST** - All right.

**Mr DAVY** - In the middle of the previous decade, around 2005 or 2006, we were still envisaging that inflows to our storage system would be in excess of 10 000 gigawatt hours per year, each year, because that was the long-term history.

**Ms FORREST** - Was that the initial intent?

**Mr DAVY** - I do not know if that was the modelling used in the Basslink business case but demand at that time was growing but lower than it is now. The expectation of the long-term supply from inflows was a quite a bit higher than we now use. We now use in our modelling, as has been reported broadly, the average from about 1996 through to now, which is an average of about 9000 gigawatt hours per year, which is substantially lower than the previous level at various levels but slightly above 10 000 gigawatt hours per year.

With slightly higher demand and quite a bit lower average hydro generation over a cycle, Basslink has definitely, in the absence of additional wind investment and when the gas-fired generation isn't running, then Basslink, in a normal year, would be used for importing at the moment, which is why it is so important Tasmania invests in additional renewable generation so we go back to being self-sufficient in renewable generation. The expectation was, in the 1980s and 1990s, that there was excess supply in Tasmania from hydro because demand had not yet grown and there was this long-term assessment of inflows.

**Ms FORREST** - Is there any other suggestion of further downward revisions? It was a 10 000-gigawatt-hour system when it was first proposed and now it is down to about 9000, Steve said. Are there any plans for any further downward revision?

**Mr BARNETT** - The key point I want to stress is: our target is to be fully self-reliant by 2022. It is not that far away. The only power that can be exported to the mainland under our Tasmania First energy policy would be excess power. Whatever the figure is, and it changes from year to year and perhaps slightly up or down depending on exactly where we are at, the point that this is only for excess power. Tasmanians come first. Tasmania First.

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By 2022, we want to be in position where we can have more renewable energy developed in Tasmania. We have already mentioned Cattle Hill Wind Farm, and I am happy to talk more about that, through Goldwind. We have Granville Harbour. UPC, the developers for the Robbins Island and Jims Plain Wind Farm - and there is a quote of them from a media release on 24 November, which I am happy to copy for you - says this about the opportunities for a second interconnector -

... UPC Renewables Australia supports the further study and progression of the development of a second interconnector between Tasmania and Victoria.

The second interconnector will enable the optimal development of Jim's Plains and Robbins Island projects, rather than being constrained by the present transmission system.

This represents a major increase in the expected total combined output from about 450MWs (~AUD900 million of investment) to 1000MWs (~AUD1.6 billion of investment).

That is what is at stake here and it is on the north-west coast. Then they say -

This will also mean a significant increase in expected job creation in north-west Tasmania.

I am making it very clear that there are some real opportunities here. It is only excess energy and post-2022, or once we get to that capacity.

**Ms FORREST** - What I have been trying to understand is the Basslink 1 business case. If we are going to progress to a Basslink 2, we need to fully understand Basslink 1.

As far as the electricity generation from gas, what was budgeted and what was exported or budgeted to provide power for local consumption while hydro power was saved for export until the Victorian prices were higher during the period of the last 10 years of Basslink? Gas has been used, we know that.

**Mr BARNETT** - Yes, we do know that and gas has been used wisely by the Hydro to protect Tasmania's interests to ensure that Tasmanians come first, and to ensure that the prudent water levels are met. Under our Government they have increased. In terms of exactly what amount of gas has been used -

**Ms FORREST** - How much energy has been generated from gas was the question.

**Mr BARNETT** - Yes, and that's over a 10-year period. I'm not sure that we have all that with us, but I think some sort of response from the CEO of Hydro might be of assistance.

**Mr DAVY** - We can certainly have the statistics available by the end of the meeting. Hydro Tasmania exited the gas generation business when the proponents of the Tamar Valley Power Station purchased the active Bell Bay site from us back in 2008 and we closed our facility in early 2009. We ended up back in the business of gas-fired generation when the assets were transferred to us and I'm going to say 2012, but that's just relying on my memory.

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When the combined-cycle unit was owned by Aurora Energy, it was largely run as a baseload facility and generated about 11 months of the year. That was suboptimal for the Tasmanian operations because it created the situation where there was more generation than required through winter and it was creating some additional spill in our hydro assets. What we do is run the combined-cycle unit when it is optimal to run either because it's supporting storages, which it certainly did during the Basslink outage, and also when it's more economical to purchase gas and generate on the combined-cycle unit rather than import power across the link. That is what we are doing today: we are buying gas, running the combined-cycle unit so that we are supplying Tasmania's needs without using as much hydro generation, or using Basslink imports.

That will be how we continue to operate the Tamar Valley Power Station combined-cycle unit into the future.

**Ms FORREST** - It would have changed if we had sold the Tamar Valley Power Station but anyway, we didn't do that. The question I would like you to get back to is: how much electricity was generated from gas?

**Mr DAVY** - We will find out for you how much gas-fired generation there has been, yes.

**Mr BARNETT** - We can get back to you on that.

**Ms FORREST** - I haven't finished the question. How does this compare with what the Basslink business case said from 2006-17? How much did the business case say would be used and how much was actually used?

**Mr DAVY** - The stats for the gas-fired generation for the last five years is in the annual report.

**Ms FORREST** - Yes, but I want to compare it with the business case.

**Mr DAVY** - We don't have a metric within the business where we compare our activities to the Basslink business case. That's not our practice.

**Ms FORREST** - But the Basslink business case tells us what was expected. I'm just interested in how it lines up. You can tell us how much gas-fired electricity was generated during that period. I need it from 2006, so you might need to get that.

**Mr DAVY** - Okay.

**Ms FORREST** - I can read the annual report where it has the past five years.

**Mr DAVY** - We'll get back to you.

**CHAIR** - Thanks, Ruth, we'll continue on then. As you say, minister, we talked about exporting excess power gained from renewable resources, and we have obviously done that in the past and received a premium for it. Other states are also moving down that path. As you know, there are some massive wind and other renewable projects on the mainland, so if they all come into play, do we not get a premium down the track?

**Mr BARNETT** - It's all part of the National Electricity Market. You have raised some good points. I can assure you we are in a very good position in Tasmania. We have what most of the



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other states really want: we have renewable or clean energy; we have secure energy and amongst the lowest cost. We are targeting the lowest.

Victoria and New South Wales have been in diabolical trouble, particularly in the last 12 months or more. This summer they are predicting a 40 per cent expectation of outages in Victoria and 30 per cent in South Australia. That is their expectation - very serious concerns.

**CHAIR** - Is that because they have closed Hazelwood and Port Augusta?

**Mr BARNETT** - Part of that problem, exactly. They have closed down a number of significant coal power stations such as Liddell in New South Wales. This is not going to stop and will continue. Huge capacity in those states will suddenly disappear, so there will be a serious need for more power in the years ahead. Not in one or two years ahead, but over the medium- to longer-term, so we are well placed.

That is why pumped Hydro with the second interconnector can be so valuable to Tasmania and benefit us. It will bring on more renewable energy projects, countless jobs associated with the construction and then ongoing. UPC Renewables was talking to you about an additional \$900 million - \$1.6 billion investment to build their wind farm at Robins Island and Jims Plains on the north-west coast, so we are well positioned.

I am happy to talk more about the National Energy Guarantee, which is being debated and discussed at the moment. We support further work being done, as do most of the other states and territories.

**CHAIR** - With regard to environment impacts, particularly from wind farms such as more remote locations of Cattle Hill, Robins Island. While it doesn't affect many populations, based on the *Weekly Times* of this week, strangely enough there is a lot of resistance in the Western District of Victoria for projected very big wind farms out there from landowners. The Victorian Government introduced regulations to allow wind farms to be approved without taking into account objections. Would your Government might consider going down that track?

**Mr BARNETT** - Our Government is very supportive of renewable energy projects done in a sustainable, environmentally friendly way. We are very supportive of the Cattle Hill Wind Farm, for example - it is a \$300-million development, 144 megawatts, 49 turbines, 150 jobs during construction, 10 ongoing and commencing in January.

They have the approvals, gone through due process and have the support of the Central Highlands Council. We are very supportive, likewise, of Granville Harbour on the west coast and they are proceeding accordingly. We are very supportive of those going through due process of sustainable development and with the appropriate environmental approvals.

**Ms LOVELL** - I would like to explore Momentum Energy in the north. Minister, are you aware Momentum Energy has struck a deal with the Victorian Farmers Federation to offer discounted power to Victorian farmers?

**Mr BARNETT** - Is that the question?

**Ms LOVELL** - That is my first question.

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**Mr BARNETT** - I am aware Momentum Energy is operating very well and profitably in Victoria. They are doing a lot of good work there. It is important we do not compare apples with oranges in terms of prices that might be available to Victorian customers and Tasmanian customers. I would like the CEO to respond more specifically.

**Mr DAVY** - Thank you, Minister. We have a tie-in with the Victorian Farmers Federation where we offer deals to farmers better than comparable deals they can get with other retailers in Victoria. This is a way of targeting a good group of customers in Victoria but the power is bought from the marketplace at prevailing prices and we purchase hedges in Victoria. We also use the fact we have Basslink as a way of hedging that Victorian load with our Tasmanian generation. It is excess generation that would not be sold to Tasmanians. Because of excess of Tasmanian demand, we are using this to offset some of the price risk.

It is a great opportunity for Tasmania to be able to utilise the facilities we have paid for to make extra margins out of selling to Victorian customers. We are proud of the way Momentum Energy operates on the mainland. There has been a lot of commentary over the past months about how some retailers operate, and pressure from the federal and Victorian governments to change some of those practices. Tasmania can be very proud. I am very proud of the way Momentum Energy goes about its business and delivers a return to Tasmanians.

**Ms LOVELL** - What kind of discounts are being offered to Victorian farmers?

**Mr DAVY** - The discounts are relative to what they might otherwise be able to achieve. I do not have those numbers to hand, but I can have more details about the offerings we are supplying to Victorian farmers by the end of the meeting.

**Ms LOVELL** - Thank you. On the website it says, 'By partnering with us you get: satisfaction in knowing that together we are supporting Victorian agriculture and the VFF.' I appreciate what you have said it is about targeting a particular group of customers. Minister, this is probably to you: that power is bought from the marketplace at the prevailing price; given Victorian farmers and Tasmanian farmers can often be in direct competition, is there an equivalent scheme in place, or plans for an equivalent scheme to be in place for Tasmanian farmers to benefit in the same way that Victorian farmers are?

**Mr BARNETT** - The first point is we have a Tasmania First energy policy, which is the lowest power prices in Australia by 2022. Secondly, already Hydro, together with the other energy businesses, has been doing a terrific job to ensure we have among the lowest prices in Australia. That includes for small business and medium-sized business, and of course for larger businesses.

We have implemented a whole range of measures to ensure those prices remain at the lowest possible level. Our businesses in Tasmania can be competitive and compete not just on a level playing field, but the most level playing field possible to ensure they can do a good job in their businesses and run profitable and sustainable operations.

**Ms LOVELL** - I appreciate that is the goal by 2022. Perhaps we will need to wait for more information to come through on the detail of the discounts. But my questions are: Are Victorian farmers at the moment paying less for their power than Tasmanian farmers as a result of this deal? Is that fair to Tasmanian farmers when they are in direct competition and Victorian farmers are getting an advantage?

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**Mr BARNETT** - Yes. There is a point that has been missing. The point that is perhaps missing or behind your question, not specifically the question, is that we already offer among the lowest power prices in Australia now.

**Ms LOVELL** - But with the discount?

**Mr BARNETT** - What I am saying is we already do that now across a whole range of areas. Specifically for residential customers, we have among the most generous concessions in Australia. They are very extensive. Aurora Energy answered those questions yesterday. With respect to small- and medium-sized business, we have instigated a range of measures to ensure the price increases occurring on the mainland that have flowed through to Tasmania are mitigated in Tasmania with the recent rebate scheme in place. The checks are now flowing. That is backdated to early this year. We have a range of measures in place to ensure the best and most competitive arrangements are in place.

**Ms LOVELL** - How many farmers are in receipt of concessions?

**Mr BARNETT** - I would not call them 'concessions'. In terms of farmers, they would be operating as a small business. If they are obviously residential, they might be receiving concessions. If they are pensioners, they will soon be receiving the pensioner's special energy bonus, \$125. The Government is proud of that particular initiative.

With respect to farmers, if they are a small business, they will be obviously receiving the small business rate. You would not call it a concession but you would call it the lowest possible power prices under those arrangements for a small business.

**Ms LOVELL** - Taking into account the lowest possible power prices you are saying Hydro Tasmania is providing to Tasmanians the discounts Victorian farmers are receiving through this partnership with Momentum Energy, are Tasmanian farmers paying more for their power than Victorian farmers?

**Mr BARNETT** - Aurora Energy is the retailer of the power. Hydro is the generator of the power and has done a great deal in addition to the government measures to provide further rebates for small business. I would ask the CEO to speak specifically to -

**Ms LOVELL** - That has not answered my question. It is a fairly simple question.

**Mr BARNETT** - It does. I think once you hear the answer, you have heard half the answer regarding government measures to provide rebates and concessions for Tasmanian customers including businesses. Hydro has done a great amount of work to ensure that its cost measures in terms of the price available to customers are reduced. I will ask the CEO to address that specific part of the question.

**Mr DAVY** - There has been a dramatic rise in prices across the national market triggered by some of the coal-fired generation that has closed. The decision to support the continued operation of the Portland Smelter following the announced Hazelwood closure in particular caused a very sharp rise in wholesale prices in Victoria.

For some years Tasmania has had a regulated contract price system that links Tasmanian contract prices to Victoria's. Hydro Tasmania made the decision towards the beginning of 2017 to

decouple some of those Tasmanian contract prices that affect medium-size business customers, business customers that use more than about 150 megawatt hours per year. They decided that the wholesale component, the energy contract rather than the distribution and transmission part of that contract, would be linked to lower Victorian prices rather than to the prevailing prices for the current year.

We were attempting to insulate, to some extent, business customers, including farmers, from those price rises. Then the Government took some additional measures the minister has already referred to. We are very mindful of the impact that sudden price rises can have on Tasmanian customers and we have worked with the Tasmanian Government, as have the other energy businesses, to attempt to keep prices in Tasmania as low as they can be while still running our businesses effectively.

**CHAIR** - Thank you. I think the honourable member raises a very fair point.

**Ms LOVELL** - That has not answered my question. The question was quite a simple one. I appreciate we might need to wait for further information that you are going to provide for us. The question is: are Tasmanian farmers paying more for their power than Victorian farmers under this scheme with the Victorian Farmers Federation? I think the Chair is right - it is an important point for Tasmanian farmers. You might not be able to answer it right now. I am happy for you to take that on notice and come back with that information once we get more information about the discounts being offered to Victorian farmers. Given that farmers in Tasmania and Victoria are in direct competition, I think it is a fair question.

**Mr BARNETT** - Chair, in answer to the question, which I think I have already answered but I will try to add to the answer, Hydro has outlined the measures it has taken to reduce the cost of power to customers. TasNetworks has also done a great amount of work to reduce the cost of power to its customers, as has Aurora Energy. The question you are asking is a question specifically for Aurora Energy. Aurora Energy is the retailer servicing various customers, whether they be residential, small business, medium business or some of the bigger businesses. That is really specifically a question for Aurora Energy, and that hearing was yesterday.

**Ms LOVELL** - I have a couple more questions on Momentum Energy. What interstate sponsorships is Momentum currently involved in?

**Mr BARNETT** - They are involved in a range of initiatives. What is the question specifically - the types of sponsorships?

**Ms LOVELL** - What are the sponsorships arrangements? Who are the sponsorships with?

**Mr DAVY** - Momentum Energy has sponsorship arrangements with two football teams - St George Dragons, a local team in the Illawarra and St George area. Illawarra a region just south of Sydney in which Wollongong is located. That arrangement with the St George Dragons comes to an end this year. We also have an arrangement with the Geelong Cats, which is a sponsorship arrangement. We are talking to the Geelong Cats about that at the moment. Those are both very modest sponsorship arrangements designed to increase customer brand awareness of the Momentum Energy business. It is the fastest-growing Victorian retailer for mass market customers. We have worked out these were good cost-effective ways of increasing awareness of the Momentum brand. It is part of what has helped Momentum grow to be a successful business.

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Without Momentum Energy in Hydro Tasmania's results, Hydro Tasmania would not have been able to contribute as much as it has to the state over the past three or four years.

**Ms LOVELL** - In the annual report you talk about the ownership of Momentum Energy continuing to be of great benefit. We have heard Momentum is doing very well. Can the Government rule out selling Momentum Energy?

**Mr BARNETT** - Momentum Energy and the retail price it offers, the activities it undertakes, does not impact on Tasmanian power prices. Hydro has a strategic plan in place; we haven't been advised of any change to that at this stage and we're not expecting any change in the near future.

**CHAIR** - In regard to Ms Lovell's questions, I would like to make a ruling. If you could please provide an answer - I know you said it is in the domain of Aurora, but her questions were in the domain of Momentum, which is part of this whole deal. That was the thrust of her questions. Could you provide the committee, not specifically right now, an answer to those questions, please?

**Mr BARNETT** - Of course, Chair, we will ensure the answers are provided from Hydro's perspective to the best of our ability to do that.

**Ms FORREST** - On page 11 of your annual report it states -

In 2016-17 Momentum exceeded its overall customer sales target with growth of 14 per cent overall and 20 per cent in Victoria. It is therefore one of the fastest-growing energy retailers in Victoria.

On pages 74-75 it says revenue has fallen from \$855 million in 2016 to \$836 million this year. If it is growing, what is happening? It is confusing.

**Mr DAVY** - I wouldn't say it is confusing. We are the fastest-growing in the number of customers. What we are focusing on at Momentum Energy is improving the quality of our customer base. The reason that total revenue has fallen is that some very large customers we were supplying in the past - commercial and industrial customers - with relatively low margins have rolled off our books and we have won a large number of much smaller customers that are much more profitable on the amount of energy we are selling. The total sales revenue has dropped, while the profitability has grown and the total number of connected customers has grown.

**Ms FORREST** - They are all smaller customers.

**Mr DAVY** - That is right, the smaller customers are the ones we have won. During that time, some larger commercial and industrial customers have rolled off our books because they are now served by other retailers.

**Ms FORREST** - On page 32 of the Auditor-General's report, he refers to unbilled energy accrual of about \$87 million. We do not have the financials of Momentum. Can you provide a copy of Momentum's financials to give us the detail of where this fits?

**Mr BARNETT** - Ms Forrest, my understanding is that information was provided to the committee yesterday and is available - there is no problem at all; we have a copy of it here.

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**Ms FORREST** - It has not been received by members of the committee. I do not think I am the only one who has not received it. Can you provide a hard copy for us now? We gave you the heads up and said we wanted to look at it.

**Mr DAVY** - We received it.

**Mr BARNETT** - They were asked to bring a copy. There is a copy, so please feel free to copy that and we can answer any questions about it. We do not have the actual audit report in front of us, Ms Forrest. As to the other question about Momentum, the strategic plan is in place. The Government has no intention of selling Momentum, and I know Hydro does not have any either. There is a copy of the financials.

**Ms FORREST** - Can you point to, in those figures that I have not seen, where you refer to the unbilled energy?

**Mr BARNETT** - Can you be a bit more specific? What are you seeking?

**Ms FORREST** - Steve knows what I am asking for. The unbilled energy.

**Mr BARNETT** - For the last financial year?

**Ms FORREST** - Yes.

**Mr BOROvac** - Are you asking what the amount was?

**Ms FORREST** - The Auditor-General said there was accrual of \$87 million.

**Mr BOROvac** - Yes, correct.

**Ms FORREST** - So where do you report that?

**Mr BOROvac** - It is reported in the individual Momentum financial statements and then it is consolidated in the financial statements of the group. If I were to lead it through to the consolidated financial statements, I gather your question is: where would that amount be included?

**Ms FORREST** - No, we really need to see Momentum's financials. It is a shame they are not included in your annual report. The Auditor-General also refers to a significant estimation at year's end relating to unbilled energy sales. How do you estimate it? It seems, as the CEO referred to, minister, to have a fairly tight margin at times, particularly for the bigger customers you have just lost. Perhaps that is improving. How do you keep an eye on the unbilled energy? Aurora put it into its accounts, but there is one entity; Momentum sits within Hydro. The Auditor-General talks about significant estimation at year's end.

**Mr BARNETT** - I will pass to Wally in a moment, through the CEO. They are very specific questions on a particular report. We are trying to ascertain exactly what you are seeking and we are happy to try to respond to it.

**Ms FORREST** - The question is: how do you estimate the unbilled energy sales? The Auditor-General made a comment, 'There is significant estimation at year's end relating to unbilled energy sales.' How do you estimate it? It is quite simple.

**Mr BOROvac** - To answer your question, we monitor the unbilled energy on the basis that the meters are not read on a regular basis. We are required, as are other retailers, to make a regular estimate. That would be done through a number of means. Internally, we would be monitoring the regular invoicing over a period of time. We would know the number of customers we have. We have internal metrics that would generate these estimates. It is a process that has been developed internally. It is a common process among retailers because there is a time difference between the raising of the invoices and the reading of the meters. In order to correctly reflect the total revenue, we need to make these estimates. There is nothing unusual in that. It is a comment that the Auditor-General has made and that's a fair enough comment. However, we do have a clean set of financial statements and the Auditor-General has signed off on those.

**Ms FORREST** - All we get is the consolidated ones; we don't see all of this.

**Mr BARNETT** - Can you let the witness finish the question?

**Mr BOROvac** - The opportunity for us to report that is in the consolidated financial statements. In answer to your next question, we only report the consolidated financial statements because we have a deed of cross-guarantee under ASIC orders that enables us to report that on a consolidated basis. That is, again, common practice. It is designed to make it more efficient and cost-effective in terms of auditing. It also reflects the group position, which is the important factor in that the underlying support is from ourselves as the holding company. The subsidiary accounts were audited separately - a report was prepared - and we can table those. As far as we are concerned, in terms of reporting to the stakeholders, consolidated financial statements are more accurate and give a more complete picture of the financial position of the corporation.

**Ms FORREST** - That's true, I accept all of that. Momentum is an entity about which there are claims it is doing brilliantly and all that, but then there are questions raised and it appears that it has never been easy to understand how well it is doing.

I want to raise a matter raised with us yesterday - that Momentum is a purchaser of large-scale generation certificates; Hydro generates them. I am focusing on Momentum at the moment and there are other questions around LGCs generally. I am wondering if there is some sort of agreement in the offsetting of the LGC arrangements with Momentum. How does that work with Hydro and Momentum?

**Mr BARNETT** - That's a fair question -

**Ms FORREST** - They're always fair questions from this side.

**Mr BARNETT** - Totally understandable, so I'll ask the CEO to respond.

**Mr DAVY** - All the trading activities in the wholesale market required for Momentum's activities are done by Hydro Tasmania. Momentum Energy does not go into the marketplace to buy energy derivatives or LGC contracts. All those contracts are either purchased from Hydro Tasmania or are purchased by Hydro Tasmania from the market to then on-sell to Momentum Energy.

Because Hydro Tasmania is itself a producer of large-scale generation certificates from its hydro operation, every year each power station has a baseline and if the generation from that power

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station exceeds the baseline, Hydro Tasmania can apply for certificates to the Clean Energy Regulator. We have a number of certificates that we create each year from our hydro generation. In a very dry year it can be very close to zero, because none of the power stations exceeds their baseline, but in a wet year, or a high-generation year, it can be a million certificates. It is variable.

We also have offtake arrangements with some of the wind farms here in Tasmania. In fact, we have an arrangement to buy the power and LGCs from the Granville Harbour wind farm.

**Ms FORREST** - All of them?

**Mr DAVY** - We are the off-taker for the Granville Harbour project substantially, yes.

**Ms FORREST** - How long does that agreement last for? Is it a long-term agreement?

**Mr DAVY** - It is multi-year agreement, yes, which has been the subject of public release.

On the LGCs and Momentum Energy - because Hydro Tasmania is a producer and has already entered into contracts mostly with the already built wind farms it is a shareholder in, we supply all the certificates Momentum then needs to acquit against its retail load. That amount grows year on year as the renewable energy target grows. It is getting to the point where it is on balance with the contracts we have with wind farms and the amount of generation from the amount of LGC generation from our own facilities. That it is a reasonable offset over time.

**Ms FORREST** - The price is the issue here. Are they sold to Momentum at a discounted rate? There is concern raised that it is hard to understand how this all works and that there is potentially cost-shifting to make Momentum look more profitable than it actually is, if Hydro is the generator of the LGCs and Momentum is the recipient.

**Mr BARNETT** - The Momentum Energy statement of profit and loss and other comprehensive income ended 30 June 2017 outlines the arrangements and profit and loss for that 12-month period. It is reasonably comprehensive with notes attached. This will assist you in some way, but if the CEO would like to respond in any further detail in addition to that, it is certainly available for all members of the committee.

**CHAIR** - Minister, that was requested yesterday. Officially in terms of process, could it be tabled?

**Ms FORREST** - It has been tabled.

**CHAIR** - We need it to be tabled.

**Mr BARNETT** - I can officially table this on behalf of the Hydro.

**CHAIR** - Thank you.

**Ms FORREST** - The question has not been answered, though. I am asking about the arrangement and the cost the LGCs are sold to Momentum by Hydro. There is some concern it could be profit-shifting. If being sold at discounted rate, it could prop up the financial position of Momentum and if it is buried, it could be buried in these figures we and the general public do not see, because all we see is the consolidated set of accounts.



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**Mr BARNETT** - I confirm I have answered that question in part. The member may not like the answer. I have referred to the financials I have just tabled officially.

**Ms FORREST** - Are you confident that answer is in those financials?

**Mr BARNETT** - Chair, I was trying to answer the question and the member interrupted. I have answered that question. I have tabled the information. The information is in there for all members to see. We have been fully transparent. The financials, the income is there. I ask the CEO to add to the answer in the best way he can.

**Ms FORREST** - Can I ask one simple question, Chair.

**CHAIR** - Order. We have a conga line of people who want to ask questions.

**Ms FORREST** - I have asked one question: are the LGCs sold at a discounted rate from Hydro to Momentum?

**Mr BARNETT** - I will pass that to the CEO. Sorry, let me make it very clear: that is an additional question. I have made it very clear. Much of what you are seeking is in the financials I tabled. You have asked a whole range of different questions. I will ask the CEO to respond to your final question.

**Ms FORREST** - It was not my final question, I can assure you of that.

**CHAIR** - Order.

**Mr DAVY** - The arrangements in place internally are designed to reflect the conditions Momentum would find itself in if it were accessing financial arrangements from the wholesale market. What we attempt to do in the transfer pricing between the Hydro entity and Momentum entity is create an arrangement the same as Momentum would have ended up with had they sequentially gone to the market and bought the financial products

**Ms FORREST** - You can wait until they are at a lower price and then sell them, rather than sell them as we know the prices of LGCs change.

**Mr DAVY** - We attempt to make sure the transfer price between the Hydro entity and the Momentum entity would reflect those Momentum would obtain had they gone to the market in the same way an independent retailer would have gone to the market.

The reason for this process is we believe it is the process the entities Momentum competes with use. We would try to use a process that does exactly what you would hope. When you asked the question, you said there is a fear some sort of profit misrepresentation might be going on. In fact, we have endeavoured with this process to ensure that does not happen. The process in place is designed to prevent the thing you fear might be happening from happening.

**CHAIR** - We now have the document tabled. We can return to it at another time, but in the meantime, Rob Valentine.

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**Mr VALENTINE** - With respect to the impact on Hydro of the closure of the coal-fired power stations on the mainland - Hazelwood, in particular; Port Augusta to date; and Liddell in 2022 - what has the impact of that been on Tasmania, and Hydro? Did wholesale market prices increase in Tassie in line with the rest of the states? Are there some customer impacts to come?

**Mr BARNETT** - Perhaps if I could start and then pass to the CEO for further comment. The bottom line is that on the mainland prices have been going up specifically as a result of the closure of a range of coal-fired power stations. You have outlined a number of them. There have been significant increases under the National Electricity Market. As a result Tasmania is becoming better placed, and will continue to be better placed in the years ahead as a result of our Tasmania First energy policy. The CEO will respond further.

**Mr DAVY** - The price rises on the mainland - in particular, in Victoria - have been dramatic. We took measures and the Government has taken measures to smooth price rises for Tasmanian customers and to reduce the overall impacts.

**Mr VALENTINE** - Is this the legislation that went through earlier? ○

**Mr DAVY** - There was legislation, but there was also unilateral action taken by Hydro Tasmania to prevent the price rises in Victoria having as big an impact on Tasmanian customers as they would have done otherwise. Because Hydro Tasmania sells and buys across Basslink into Victoria, the higher and more volatile prices have created more opportunities for Hydro Tasmania in the short term.

This is part of the very dramatic energy transformation going on through the national market. In the short term, yes, it creates trading opportunities, but we must also be careful about the long-term impacts. We must make sure that if prices are high in a sustained manner in the national market, they do not end up creating problems for Tasmanian customers.

We have been careful and working with the Government - and other state-owned electricity businesses have also been working with the Government - to try to make sure Tasmanian customers are impacted as little as possible. It also creates great opportunity for Tasmania. The entire reason there is an opportunity to invest in more renewable generation in Tasmania, more interconnection and more hydro augmentation pump storage is because some of the existing coal-fired generation in the rest of the country is coming to the end of its useful life and some of it will close. That will create opportunities for new, cleaner forms of generation to be built. In the long term this transition of the national market creates an enormous opportunity for Tasmania. The purpose of the Battery of the Nation project is to examine whether that opportunity is one that should be pursued. Can it create more economic activity in Tasmania, more jobs and better prices for Tasmania relative to the rest of the country? ○

**Mr VALENTINE** - I can understand long term with respect to the Battery of the Nation project, but has there been a major short-term impact, especially with what is happening in South Australia?

**Mr DAVY** - In the very, very short term we have done slightly better in the 2016-17 financial year than we budgeted because prices went up. A lot of hedges were already in place but some additional opportunities created some additional revenue opportunities. If the power price goes up, we are selling the energy that is not contracted at better prices on the mainland.

**Mr VALENTINE** - Are you doing that aggressively or conservatively, given the situation we found ourselves in a couple of years ago?

**Mr DAVY** - We have always been very conservative in our trading operations. We are taking prudent opportunities to lock in some of the high prices available on the mainland.

**Mr VALENTINE** - With respect to the handout being provided to pensioners, is that part of the old heating allowance system that used to be provided through Hydro or is it on top of that?

**Mr BARNETT** - The special energy bonus is on top of the very generous concessions we already have in place for pensioners and those who use those concessions. It is specifically for pensioners - an estimated 80 000 households around Tasmania - and Commonwealth senior health care cardholders. It is called the 'special energy bonus' and it is \$125. It is through Aurora Energy but I am more than happy to respond to that question and hopefully that assists. It is because of the windfall gains we've had from a number of the energy businesses. Rather than keeping that in consolidated revenue, we wanted to give it back to those doing it tough. The pensioners had a cold winter, their costs of living, including cost of power, were high. This money will assist them in paying for that. Cost of living is a top priority issue for our Government and the cost of doing business is important. That is why we are trying to keep the cost of power as low as possible.

**Mr ARMSTRONG** - I noticed yesterday that storage was at 45.1 per cent capacity and most of the run-of-the-river schemes have spilled or are spilling during the year. The Great Lake is down to 13 metres below full and Lake Gordon was 22 metres below full. We heard a lot when the crisis was on about Lake Pedder where there were only 1.8 metres or 2 metres of top flows into Lake Gordon, which supplies 40 per cent of the water for the Gordon power station through McPartlan Pass. There was talk about using more water out of Lake Pedder. Has there been any work done on lowering the McPartlan Pass canal to take more water out of Lake Pedder? Has it been on the Hydro's books? I believe it has to get the approval of parliament.

**Mr BARNETT** - The storage targets have increased, so 30 per cent midyear, 40 per cent at the beginning of summer. We are at 45.5 per cent yesterday. We are well above the prudent water level and we are pleased about that.

Specifically, Great Lake is 32.4 per cent and Gordon is 44.9 per cent and 45.5 per cent across the board.

More specifically, if you would like to respond on Lake Pedder, CEO?

**Mr DAVY** - Certainly. What was being considered in the time of the energy supply plan in 2015-16, was: could we utilise a bit more of the water in Lake Pedder for supply during that tight supply demand situation? Lake Pedder normally operates in a very narrow band to preserve the environment on the foreshore and to keep the beaches formed around Lake Pedder consistent.

In the legislation originally set up, we had the ability to draw Lake Pedder down another few centimetres but that needed some authorisations to go ahead. We did not conclude those authorisations through the 2015-16 period. What we want to do now, as a result, is submit a referral to the trigger-based approach so that, if required at some future point, that extra 90 centimetres of drawdown of Lake Pedder could be used in emergency situations. We want to clear the way for that, should we ever find ourselves in the circumstances, which I hope we will not, we found

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ourselves in early 2016. We do not need to increase the size of McPartlan Pass; it is operating the canal at McPartlan Pass the way it operates at the moment.

**Mr ARMSTRONG** - When we had that big rain event the overflow had to be opened up on the Serpentine. By allowing it to go down that extra four metres, that water was wasted and it went out through the spillway. That would probably help fix those problem, wouldn't it, if you could drawdown a little bit more when you knew you had a big influx of rain coming?

**Mr DAVY** - We do not have that operational flexibility at Lake Pedder. Lake Pedder operates through a very narrow range. It is true we have had, on very rare occasions, a spill event over the Serpentine Dam. All our Hydro assets at times, cannot contain the amount of inflows that go through. That is part of the trade-off that is made with the kind of infrastructure we build.

Even if we get authorisation to use a lower Lake Pedder level during some emergency situations, I do not think we would then use that authorisation to create more headroom in Lake Pedder for high inflow events. I think that would be outside the bounds of what would be approved.

**CHAIR** - Minister, we will adjourn until 10.50 a.m.

**The committee suspended from 10.39 a.m. to 10.52 a.m.**

**CHAIR** - Minister, a question was raised among stakeholders yesterday under the auspices of corporate governance. I refer to a particular person, Samantha Hogg. There was a perception she is a non-executive director but she also chairs Tasmanian Irrigation and that therefore we have a nexus between Hydro and TI with mini-hydro schemes, all that sort of stuff. There are people who are asking questions about how that could be and whether you, as minister, see a conflict of interest there.

**Mr BARNETT** - Thanks for the question. I will ask the Chair to respond.

**Mr EVERY-BURNS** - I was involved in the appointment of Samantha from the day of interview. At the time we were interviewing her, I think she was also seeking a role in TasRail, completely independent of what we were doing. Our recommendation was made for all the right reasons and Samantha became a director on the Hydro-Electric Corporation.

Subsequently she was offered a role in Tasmanian Irrigation as a director. At that time, I can assure you, the company, the secretary, the board and I considered the issue of conflict because it is a key issue. We took the view that there was no irreconcilable conflict at all. The usual rules apply that if you are conflicted, you simply declare that conflict and stand aside. Samantha was well and truly across those issues, as I believe I am. Subsequently she became chair of TI as well.

In terms of how we've managed that, she is very careful. She talks to me quite openly about it and we are very careful that in dealings that TI may have that relate to Hydro. My understanding is that she absents herself or stands aside from that to make sure she is not involved. In any time Hydro has had to consider issues associated with TI, she has generally not had the papers associated with that critical decision and has stood aside - not been in the room and not voted. It is completely manageable and the other directors are across the issues. The officers of the companies handle the issues properly. I've never had any concern about it whatsoever.

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**CHAIR** - I accept the explanation; however, there is an inquiry with TI coming up and no doubt it may well be raised again by other entities.

**Mr EVERY-BURNS** - I can assure you it's considered.

**CHAIR** - Another quick question on renewables generally. In regard to renewables aside from hydro -and we've talked about wind farms at this stage - how much public subsidy generally is required to make wind farms - not only here but across Australia - viable? There is a quantum of public subsidy, I take it?

**Mr BARNETT** - I have been a long-time supporter of renewable energy as a senator for Tasmania in the federal parliament under John Howard. I am a very big admirer of the former prime minister. The Renewable Energy Target was put in place, and under that scheme a certain percentage of our total energy must be provided from renewable energy. That necessarily supports or benefits any renewable energy, including hydro, wind and other renewable energy projects, and puts Tasmania in a very good position.

Going forward under the National Energy Guarantee, which is what is on the table, we're doing more work on it. We will not support it unless it's consistent with our Tasmania First energy policy - low price, secure power and renewable, clean energy.

We are moving into a carbon-constrained world. I don't think anybody would deny that. The fact is, when people say there are massive subsidies for renewable energy, I think that's an unfair observation. It is fair to say there are policy parameters in place that are supported by all sides. It is noted that in moving to a carbon-constrained world, renewable energy is part of the solution, absolutely. Tasmania is in the sweet spot and so they are operating on a level playing field like everyone else in Australia in renewable energy projects. We want as many of those projects in Tasmania as possible, subject to them being sustainable, viable, profitable and, of course, environmentally approved.

**CHAIR** - The short answer is yes, there is quite a large public subsidy to make them work.

**Mr BARNETT** - I don't accept those words as the minister responsible for energy in Tasmania. What I do accept is that there is a renewable energy target through to 2020 in Australia; as you would be aware, the current rules relating to that initially commenced under the Howard government, continued under the former Labor government and then continued under the current government. Now they are looking to progress to a new environment post-2020 and that is proposed to be a national energy guarantee. We're working through those options and making sure that they benefit Tasmania under our Tasmania First energy policy. The current arrangements are in place, we are operating under those arrangements, and it is equal for every renewable energy project all around Australia.

**CHAIR** - Are we getting closer with geothermal or is it not the radar?

**Mr BARNETT** - I am not an expert on geothermal, but is part of the solution. The CEO will comment.

**Mr DAVY** - We are not aware of any commercial attempts at geothermal electricity in Tasmania at the moment. We are not working with any proponents.

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**Ms FORREST** - I have two very direct and specific questions related to Momentum. When I asked about the fall in revenue, the reason you gave was about losing those big customers. There has also been a fall in profit, so that cannot be explained by better profits. What is the explanation for the fall?

**Mr BARNETT** - The answer to the question was provided by the CEO a bit earlier at least in part, but I will see if he can add anything further to the previous answer to that question.

**Mr DAVY** - The market has certainly become more competitive in Victoria over the past few years. We have seen good competition for Victorian customers, so narrower margins on those Victorian customers as a result.

**Ms FORREST** - But you said you had better margins on the residential customers.

**Mr BARNETT** - Chair, is it possible for the witness to have the opportunity to answer the first question before going to the next question?

**Ms FORREST** - We do not need to be dictated to.

**Mr BARNETT** - I am just trying to help the Committee.

**Ms FORREST** - No, you are not.

**Mr DAVY** - The reason for the lower revenues is we are moving from large, low margin customers to smaller, higher margin customers, to increase the profitability of Momentum. Even for those small customers, the margins have been squeezed by a competitive Victorian marketplace and a high wholesale price.

**Ms FORREST** - So you need to build your customers base, is that what you are saying?

**Mr DAVY** - No, what I am saying is the price we use to calculate the energy component for Momentum's customers on the mainland has moved up as the wholesale price has moved up in the market. Because the sales price to the customers has not moved up as quickly, because these markets are competitive, the margin on the retail customers has been squeezed slightly and resulted in a lower profitability for Momentum compared to some of the previous years. It is on a good trend in the quality of the earnings, but there are ups and downs as the margins change from year to year.

**Ms FORREST** - We talked about the un-built energy for Momentum and the CFO said it was in the consolidated accounts, can you show me exactly where it is in those accounts?

**Mr BOROYAC** - It would be part of note 6 as part of 'trade receivables'.

**Ms FORREST** - Why is it listed as a trade receivable, when it is not a receivable until it has been billed?

**Mr BOROYAC** - We classify receivables and accruals and whilst we have not invoiced those people, they do owe us that money. It is a fine line as to how you describe it.

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**Ms FORREST** - It would be more transparent, wouldn't it, rather than saying it is a trade receivable, to talk about 'unbilled' amounts?

**Mr BOROVAC** - Yes, at the end of the day that disclosure is made as to our policy and how we disclose that.

**Ms FORREST** - Where?

**Mr BOROVAC** - We talk about our policies and how we disclose those unbilled amounts. From that point of view, we consider them to be receivable.

**Ms FORREST** - Where do you explain that?

**Mr BOROVAC** - There is a policy note, which I can refer you on page 31, unbilled energy, we do talk about the estimates we use.

**Ms FORREST** - That is all there is?

**Mr BOROVAC** - That is right.

**Ms FORREST** - That is not really clear or transparent. It has not been billed, so you cannot really classify it is receivable, but is the way you do it. I will go to some other questions I wanted to ask. On page 11 of the annual report.

**Mr BARNETT** - Sorry, Chair, just through you, in answer to that question, it is very clear at page 31 and the CFO has outlined it, it is in black and white, and it makes it very clear it is unbilled energy.

**Ms FORREST** - My point is, Mr Chairman, it is caught up in the trade receivables. It is not billed, so it cannot be receivable until it is billed. If it was listed, as Aurora do, as unbilled, then it would be clearer, unless he wants to argue with that point.

**Mr BARNETT** - My understanding is they are following accounting standards common across Australia.

**Ms FORREST** - I make the point Aurora notes it as unbilled energy.

**CHAIR** - Next question.

**Ms FORREST** - On page 11 of the annual report, the underlying profit of \$20.1 million before tax, their value adjustments and valuations are recorded. Does the underlying profit adjust for one-off amounts, income or expenses that will not re-occur? Is there a definition as to what gets included or excluded in the underlying income?

**Mr BOROVAC** - Sorry, I -

**CHAIR** - Could you clarify which financial statements you are looking at?

**Ms FORREST** - Hydro's.

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**CHAIR** - At what page?

**Ms FORREST** - It is mentioned on page 11 in the commentary. I will take you further then on page 89 -

**Mr BARNETT** - Just so the CFO can follow, we are looking at page 11 of the annual report under finances, I assume, at the top half of the page?

**Ms FORREST** - Yes. I am just reading what it says there.

**Mr BARNETT** - Which paragraph? There is three paragraphs.

**Ms FORREST** - The top of the page, 'Achieving an underlying profit of \$20.1 million before tax, fair value adjustments and revaluations.'

**CHAIR** - Yes.

**Ms FORREST** - On page 89 it says, 'The results in fair value movements and revaluations 2016-17 target is \$6 million performance, \$20 million.' The budget was \$6 million. The actual was \$20 million. I am assuming this is a good result, but did the budget include the full payments of the BSA payment which were not made? How much was not actually paid in that?

**CHAIR** - I will allow the CFO time to gather his thoughts on that.

**Ms FORREST** - That is why I wanted to ask the first question first, but the minister could not follow me.

**CHAIR** - There is two components, yes.

**Mr BARNETT** - We have got two parts to the question.

**CHAIR** - I know.

**Mr BARNETT** - I will just pass back to the CEO.

**Mr DAVY** - The stated results include the items that occurred during the year. Except the figure of \$20 million is before the fair value movement. Fair value movements are after that. It is inclusive of all the items brought to account that year, including anything abnormal.

**Ms FORREST** - With regard to the budget, \$6 million, actual \$20 million, did the budget include full payments of the BSA payment, which were not made? The 2016-17 budget, did it include those amounts?

**Mr DAVY** - Yes.

**Ms FORREST** - It included all the BSA payments that were not made? That is what you are saying.

**Mr DAVY** - The budget included making BSA payments.



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**Ms FORREST** - But you did not make them.

**Mr DAVY** - You are asking about the budget.

**Ms FORREST** - Yes. The budget did include them? The answer is yes? I am clarifying.

**Mr DAVY** - The budget did include them, yes.

**Ms FORREST** - Yes. Did hydro make all the BSA payments in that year?

**Mr DAVY** - Yes. We publicly said there was a process we agreed with BPL, Basslink Proprietary Limited, about the payments we did actually make over the year.

**Ms FORREST** - Yes. You did not pay all the BSA payments?

**Mr DAVY** - I think I have answered the question that you have asked. If you have another question, maybe you should ask that.

**Ms FORREST** - All right, when did you decide not to pay the BSA amounts in full? There was no mention in last year's annual report about this and no event subsequent to the balance state that would suggest you didn't need to.

**Mr BARNETT** - Through you, Chair, I think the question goes to matters that are commercial-in-confidence for Hydro in terms of its relationship with Basslink. The CEO doesn't feel comfortable providing commercial-in-confidence information at this point in time. This is not the time to proceed accordingly.

Perhaps if the question was rephrased we might be able to assist.

**Ms FORREST** - Okay, I will ask the question a different way. Keppel has reported income for its Basslink subsidiary as \$81 million for the year 2016-17. Is that what the amount should have been had you not withheld payments? This is publicly reported, this is not commercial-in-confidence - it is out there in the public arena.

**Mr BARNETT** - Repeat the question to clarify what you are saying.

**Ms FORREST** - Keppel has reported income for its Basslink subsidiary as \$81 million for the year 2016-17. Is that what the amount should have been had you not withheld payments?

**Mr DAVY** - It has been a matter of public record that we disagree with BPL about the amount that was due under the Basslink services agreement, but I am not at liberty to publicly disclose the size of that disagreement.

**Ms FORREST** - Basslink will soon have to lodge its financial statements with ASIC and they will disclose how much is in receivables. As they only have one customer, which is Hydro, doesn't it make it pretty evident what the amount is?

**Mr BARNETT** - Through you, Chair, I think the CEO has responded accordingly. Basslink, we know as it is on the public record, has a contract with Hydro through to 2031. That remains in place.

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The Government is confident of the security of our energy in Tasmania. As I indicated in my opening remarks, the entity has been sold in the past and energy security is not compromised in any way, shape or form. The CEO has made it clear there are certain matters he cannot talk about because of commercial-in-confidence. He can speak about what is on the record. I think he has outlined that to some degree.

**Ms FORREST** - Chair, I go to Hydro's financials on page 56 where it talks about the Basslink agreement amounts that were expected to be paid for 2016-17. They are listed in the first two columns here. That is less than six months - in six to 12 months there. In the case of the BSA amounts, the total was \$78.5 million expected to be paid 2016-17. You disclose that amount was supposed to be paid but not the amount that you have actually paid.

Is this what was supposed to be paid or what actually was paid?

**Mr DAVY** - Maybe you want to restate the question, Ms Forrest.

**Ms FORREST** - I will try to expedite things. I refer to page 56 of the annual report where it says, 'It will be the same amounts that are expected to be paid for 2016-17 listed in the first two columns.' It amounts to \$78.5 million that was expected to be paid 2016-17. Hydro disclosed the amounts you expect to pay but not the amounts you paid - is that the case?

**Mr BARNETT** - Thank you for the question. My understanding is there are other revenue streams that flow to Keppel apart from Basslink and that is a point that should be noted and acknowledged.

**Ms FORREST** - I am talking about Basslink. Hydro is the only customer of Basslink.

**Mr BARNETT** - Yes, I know. My understanding is, in terms of Basslink specifically, there are other revenues that I have been advised flow through to Basslink apart from the Hydro. That is the advice I have received.

With respect to the second part of the answer, I will pass to the CEO.

**Mr DAVY** - Basslink receives revenue from the sale of telecommunication services.

**Ms FORREST** - A minute amount, compared to what Hydro pays.

**CHAIR** - One at a time.

**Mr DAVY** - I am not able to publicly discuss the difference between what we have paid and what Basslink says should be paid. I am not going to publicly talk about the size of that difference.

**Ms FORREST** - Can you talk about the size of the difference on page 55, the amount you expect to pay in this current year under the BSA? In the first two columns together again it is \$107 million. That is a rise of \$30 million in a year. Can you explain why it has increased so much?

**Mr DAVY** - There are multiple causes for the differences. The Basslink fee has in it a commercial risk-sharing arrangement. In the years where the power prices are very low, the

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commercial risk-sharing arrangement leads to the fee being at the lower end of the possible range. When powers are very volatile, which they were already forecast to be by the time the year started, we had much higher spreads. The spreads in the 2016-17 were much higher than in the 2015-16 year. A combination of high prices, volatile prices throughout the year, create a much higher fee as the fee has a link to price spreads. That is the cause of some of the difference you see there.

**Mr VALENTINE** - What aspect of commerciality is on these payments, given it is a monopoly supplier? Why does it need to be in confidence? You have an owner of the facility and you are using the facility, it is monopoly and they do not have any competition. Why does it have to be in confidence? It might be simply answered, but I would be interested to know why that is. Is it the commercial side of it? Is it Hydro's concern or is it Basslink company's concern?

**Ms FORREST** - Basslink publish its publicly.

**Mr BARNETT** - Perhaps if I can at least attempt to answer that question. It relates to the Basslink outage and the costs flowing from that. There has been a conflation of the issues of the very extreme drought and weather and then the Basslink outage itself. There has been a conflation of those by some in the community.

The position of the Government on the cause of the fault is quite clear - we do not accept that the fault was force majeure. That is a key point I am making on behalf of the Government and Hydro. Hydro did withhold some payments to Basslink that reflected its position on the contractual arrangements. It is fair to say and I think I have said publicly in the House and elsewhere that Hydro resumes those payments. It is continuing the full facility fee in September of this year, but I note that Labor opposed Hydro taking that action. Mr Green, when he was Leader, urged Hydro Tasmania to accept Basslink's position and abandon its position on recovering costs, saying there is a risk they will turn it off. That was certainly not appreciated at the time by the public or others.

What I am saying is, there is a range of issues. There are contractual arrangements in place and the contract goes through to 2031. It is important that those two issues are not conflated - the drought issue and the Basslink outage issue. Now, of course, Keppel has advised it is doing a strategic review. It has advised it is considering its options with expressions of interest. The Government and Hydro have advised we are monitoring the situation very carefully. The main point from Tasmania's point of view is that energy security has not and will not be compromised under our Government. That remains the position because it is part of our Tasmania First energy policy.

**Mr VALENTINE** - There is nothing in court at the moment, is there? All court action has been completed.

**Mr DAVY** - There is no dispute on foot at the moment between ourselves and Basslink but the process within the Basslink service agreement for dealing with disputes would be to use the dispute resolution process in the contract. This particular issue between ourselves and Basslink Pty Ltd, if it needed to be brought to a conclusion, would be done through the workings of the contract, which has been done a couple of times before when we have had large disagreements about how the contract should work under certain circumstances.

**Mr VALENTINE** - If Basslink publishes its figures, wouldn't it be in the interest of transparency to see Hydro's figures published on this?

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**Mr DAVY** - I do not think Basslink has publicly made any statements about the size of the disagreement. We are not in a position to talk about that. It is a commercial, confidential matter at the moment, and I would like to leave it at that, if it is okay with the committee.

**CHAIR** - Okay.

**Mr VALENTINE** - Thanks for at least -

**CHAIR** - I think we have had a fair line of forensic questioning. It has been good, with answers from the minister and others. That is for the committee to deliberate on.

**Mr FARRELL** - One thing that has been fairly topical publicly and in the media has been the salaries. It is noted in the annual report that the cost for 11 positions is \$3.689 million in total. I would like to know a little bit more about the short-term incentive payments - what they are for, how they come about and who makes the decision on what they are based on.

**Mr BARNETT** - Firstly, there has been quite a bit of debate and discussion about that, as the member has noted. The fact is that under our Government executive remuneration is still lower now than under the former Labor-Greens government. The issue of executive remuneration is a matter for the board, so the Chair might wish to respond. In terms of the specifics, in 2016-17 total remuneration was \$3.7 million compared to \$3.9 million in the 2013-14 year, or the last year of the Labor-Greens government. Over the past four years the total remuneration has fallen, where CPI increases alone have been greater than 7 per cent. Under the Labor-Greens government power prices went up 65 per cent in the last seven years of that government. I will ask the Chair or the CEO to add to that.

**Mr EVERY-BURNS** - That one is probably in my area. The salaries for the executives over a four-year period have gone up and down, and then about level. If you ask about the incentives, there was a very big jump in apparent salary from the year before to the current year that has been reported on because of the energy supply situation. The board took the view that irrespective of the performance agreements that were in place with the executives, the company's capacity to pay was very limited because of the loss that had been made in that period. The board took the view, in consultation with the executives, that it would not pay bonuses in that year.

Irrespective of how hard people have worked or the reality that most of the executives had worked harder during the energy supply crisis than in previous times, because it was extremely demanding of people, again, the board took the view that capacity to pay was limited and would not be paid.

In the year that has just been reported on, in reality the total payments didn't jump any more than they had in the prior period. We assessed the short-term incentives then in the traditional way, which went back in this particular case to the profit of the company, but it was limited in the year that we're reporting on by the reality that we actually wanted water storages to build, if possible, in addition to profit being returned. That was an additional constraint. It wasn't just a matter of making a profit or better-than-budgeted profit, it had to be done in the face of the storages being conserved at a very minimum, and we set a target that they had to come in above. In fact they came in well above that. The company ended up with, in value terms, probably more than \$50 million of water in storage in addition to anything that you see on the papers there.

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The performance agreements also go to other cultural elements. They go to other initiatives the board wants to see put in place. At the end of it, the board sits back and takes a view on generally fairly quantifiable factors as to what those incentives ought to be. In the year gone by, where we went from having to commit something in the order of \$100 million to a program of securing the supplies, reporting a loss of \$65 million to the point where we turned the company around - when I say 'we', I mean the executive team has done that - the board took a view that we had achieved the sort of things we wanted to do and recognised people for those achievements.

**Mr FARRELL** - Is it based on extra hours worked?

**Mr EVERY-BURNS** - No, it's not. You can reflect on the reality that during the energy supply situation, many extra hours were worked and no, the incentives don't reflect that at all. In fact, they almost reflect the exact opposite. This is often the case in business: the harder the year, the more effort the team put in, but in general, in enterprise, if you don't get the bottom line results, you don't get the incentives. In the year prior to this one, despite the effort, we didn't get the results, we didn't get the profit; water storages were not where we wanted and they are key drivers for the corporation.

In the year we are reporting on here, the company has substantially put water into storage, made greater profits, more than the budgeted profits, the returns were every bit of what we wanted, and the turnaround in the company was every bit of what we wanted. They are the judgments we put into it. It is not based on hours worked; it is based on results.

**Mr FARRELL** - So it is only an incentive system. If you have a bad time and profits go down, you do not cut from base? Is it capped?

**Mr EVERY-BURNS** - Yes. The bad year demonstrates in a bad year there is nothing paid. It is tough.

**Mr FARRELL** - Is there a cap on the incentive?

**Mr EVERY-BURNS** - Certainly. The cap for executives is a 15 per cent maximum because that is what is allowed for in their conditions of employment. The chief executive has a 20 per cent cap, also a condition of employment.

**Mr BARNETT** - Chair, before we close this session, we have the answers to the two questions.

**Mr GAFFNEY** - Please do not take this as a crack at the process, but it seems to me and a lot of people in Tasmania wrong to award bonuses to people when you want them to be doing the best job anyway. I would rather see their base line salary increase and know, regardless of how the company performs, whether it is good times or bad times or how many hours they work, that is their salary. They should be making good decisions all the time, getting the best back for the company and the state, so why do they get bonuses? That really offends some people. Has the board discussed that point of view?

**Mr EVERY-BURNS** - Yes, we have. This is a question that vexes boards throughout the country. The particular distinction here is that Hydro Tasmania is a very substantial business and one every individual in Tasmania should be proud of. This is not a government department; this is not doing ordinary things; it is operating in one of the most competitive commodity markets in the world. This is the only commodity market in the world where prices can shift on a five-minute basis. They can go from the average at the moment of about \$100 a megawatt hour, lawfully in the

marketplace to \$12 500. The hedging and financial arrangements are very onerous and substantial. There are enormous amounts of money at risk. That does not mean the business is risky, it means there are enormous amounts of capital at risk. In the normal enterprise Hydr. Tasmania is one of the big players in Australia and we should be very proud of it. The idea of not having incentive schemes is unusual in businesses of this magnitude. The concept of 15 and 20 per cent in the commercial world is very small. I understand the difficulties for people.

**Ms LOVELL** - Minister, can I please have an update on the progress of the energy deal made in May 2015 between TasNetworks, Hydro and Bell Bay Aluminium to increase load to Bell Bay by 10 per cent, which was around 33 megawatts? This deal was spruiked in the 2015 TasNetworks annual report. I will explain why I am asking the question here in a moment. It has not rated a mention in any of the annual reports since then. Is this project off the table because of the energy crisis?

**Mr BARNETT** - TasNetworks is the next witness, but I will pass to the CEO for feedback.

**Mr DAVY** - We have had a number of arrangements with Bell Bay over the years to help them improve the profitability and sustainability of their plant by increasing the current through their potlights. While I do not have all the details to hand, my understanding is since entering into those transactions they have made the changes they wanted to make with their processing and have gradually increased demand.

**Ms LOVELL** - So it has increased to the level set in that deal?

**Mr DAVY** - I cannot recall whether it has climbed to that exact number, but my understanding is they have got very close to it.

**Ms LOVELL** - The reason I am asking this question here - and I am happy

**Mr DAVY** - My understanding is that they have come very close to it.

**Ms LOVELL** - The reason I am asking this question here, and I am certainly happy to ask it in the next hearing as well, but the chair of TasNetworks, Dr Norton, told the Public Accounts Committee on 20 June 2016, when he was asked the same question, that this was a question for Hydro. That is why I am asking it here.

It is important to seek an update on this because it was spruiked at the time as a deal that would secure the future of 1500 jobs. What is the status now of those 1500 jobs?

**Mr BARNETT** - I can respond to say and confirm what the CEO has already confirmed. I visited there just some weeks ago and had very amiable, positive and thoughtful discussions with the CEO of Bell Bay Aluminium. We had a tour of the site and feedback was very positive. They were very pleased and positive about the Tasmania First energy policy and the push for the lowest prices in Australia by 2022.

There was no negative feedback in respect to the matter you are referring to. That was not raised with me at that particular meeting.

**Ms LOVELL** - So is it your understanding that those 1500 jobs were secured as a result of this deal?

**Mr BARNETT** - There was no negative feedback with respect to the matter you are referring to. The discussions I had were positive and I am happy to obtain further detail for you in due course.

**Mr GAFFNEY** - We went through some work yesterday and the Mozo People's Choice Awards target of plus-53 was exceeded by three plus-56. What does that mean? We could not find any reference to how that is indicated - you could have set a low target and then exceeded it by three.

My second question would be now you have plus-56, does that mean next year's target is plus-56 because you do not want to go backwards?

**Mr DAVY** - It is the Mozo Awards - an independent agency that measures customer satisfaction, Australia-wide. I am very proud of what all of our people do but in particular the way Momentum Energy look after their customers is one of the reasons they are very successful in winning and retaining customers.

The number you are referring to is the net promoter score. What we have done in the past is poll customers who have called in for various reasons to ask them whether they would recommend Momentum Energy to their friends. So the net promoter score means the degree you recommend and that score is calculated by subtracting the number either ambivalent or would not recommend from the numbers that would strongly recommend or very likely to recommend. Let us say you poll 10 customers, eight say they would strongly recommend Momentum Energy and two say either, 'Don't know', or 'Wouldn't' - that is a net promoter score of eight minus two which is six, so that is 60 per cent. The common thing is zero, about normal or negative, so Momentum Energy has a very strong score, but we are looking at further ways of improving our measurement of customers for satisfaction.

Can I go to the questions left hanging?

**CHAIR** - Yes, we want to finish up so we will do those other couple of questions.

**Mr BARNETT** - Yes, the CEO has the answer to those two questions.

**CHAIR** - Thank you.

**Mr DAVY** - Gas fire generation in Tasmania since December 2005 was approximately 11.7 terawatt hours, 8.1 terawatt hours from the combined cycle unit, 0.7 terawatt hours from the peak units and 2.9 terawatt hours from the old steam cycle unit at Bell Bay, now closed.

I made a mistake in saying 2012 when the assets were transferred to us; they were transferred in June 2013. The Victorian Farmers Federation offer currently is at about 29.76 cents per kilowatt hour for peak energy and 14.9 cents for off peak and there is an additional daily charge of 162.35 cents per kilowatt hour.

I am not aware of the pricing for Tasmanian

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Mr DAVY - (cont.) .35 cents per kilowatt hour. I am not aware of the pricing for Tasmanian farming customers, but on average, that is the offer in front of our Victorian farming customers through the VFF. That is a small discount to our regular market offer.

Ms FORREST - Mr Chairman, one question was not answered fully: how did the gas usage compare to the Basslink 1 business case?

Mr DAVY - Yes, I do not have the Basslink business case. I do not refer to it.

Ms FORREST - Hydro has it.

Mr DAVY - I am sure we do somewhere, but nobody in the time has made that comparison.

CHAIR - Thank you. We are running right over time. Minister, on behalf of the committee, I thank you very much and your team from Hydro. Now we have a changing of the guard because we will move straight on. You can stay there and you can bring some other people in from Tas Networks. Thank you.

The committee suspended at 11.41 a.m.



**7 December 2017**



**PARLIAMENT OF TASMANIA**

**LEGISLATIVE COUNCIL**

**GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A**

**TASMANIAN NETWORKS PTY LTD**

**HON. GUY BARNETT MP**

**Thursday 7 December 2017**

**REVISED EDITION**



# UNCORRECTED PROOF ISSUE

Thursday 7 December 2017 - Legislative Council - Government Businesses Scrutiny Committee A - Tasmanian Networks Pty Ltd

## LEGISLATIVE COUNCIL

### GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Thursday 7 December 2017

#### MEMBERS

Mr Armstrong  
Mr Farrell  
Ms Forrest  
Mr Gaffney  
Mr Hall (Chair)  
Ms Lovell

#### IN ATTENDANCE

Hon. Guy Barnett, Minister for Energy

Ministerial Office

Mr Michael Connarty, Senior Adviser

Tasmanian Networks Pty Ltd

Dr Dan Norton, Chairman

Mr Lance Balcombe, Chief Executive Officer

Ms Bess Clark, General Manager Strategy and Stakeholder Relations

Mr Ross Burrridge, General Manager Finance & Business Services

Mr Wayne Tucker, General Manager Strategic Asset Management

The committee resumed at 11.43 a.m.

CHAIR - Thank you, minister, in your other Energy portfolio hat.

Mr BARNETT - Thank you very much, Chair, and thanks members of the committee for this opportunity.

CHAIR - I invite you to make a short opening statement in regard to TasNetworks.

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**Mr BARNETT** - Thank you, Chair. A very brief opening statement from me. TasNetworks reported a profit of \$93.9 million, marginally above budget by \$1.2 million. It has meant total returns to Government of \$176.2 million.

The main point to note is the work of TasNetworks, consistent with our Tasmania First energy policy, to provide the lowest possible power prices with the target to have the lowest power prices in Australia by 2022. I will also note TasNetworks' work to achieve security of supply, consistent with our Tasmania First energy policy. I note their strong engagement with ARENA and the announcement a couple of weeks ago between ARENA and TasNetworks of \$10 million from federal and state governments to support the further business work and business plan with respect to the second interconnector. The Government strongly supports that work.

I thank them also for their involvement with Goldwind and the Wild Cattle Hill wind farm, the progress on that and their other good work which I will let the chair and the CEO outline.

It has been a good year. There has been a lot of progress. I will pass to the chair.

**Dr NORTON** - I will be very brief because we should use this time to answer questions rather than to talk. I want to make four points. One is to remind you we are a relatively new business in the sense we merged about three years ago. We are very happy with the progress we have made in becoming one business. We have a major project which we will talk about in discussion, the Agilis project, which has come to fruition. It is a set of new systems to enable us to operate as a single business. The focus of our business is we are very keen to do whatever we can to ensure there is downward pressure on prices. We have had a 20 per cent reduction this year due to a number of things that we can go into. We want to continue to do whatever we can to ensure Tasmanian customers get the delivery of power on an efficient and effective basis at a reasonable cost.

Safety continues to be a major issue for us. I want to stress the safety of our people and our customers is a critical issue. I can outline the plans we have in respect to that.

The final thing is a personal comment. Some of you may not remember, but I go back in the electricity industry a long time in Tasmania. When I was CEO of the then Hydro Electric Corporation, we convinced the government of the day to look at the first Basslink interconnector. Towards the end of my career in the electricity industry, I am very delighted TasNetworks is involved in looking at the business case for another interconnector which we will, no doubt, talk about as we go on. That is all I wish to say.

**CHAIR** - Thank you, Mr Chairman. I want to go to one issue. It has been a festering, running issue for some time, and that is the ownership of poles and wires. It was brought up with us very strongly yesterday by the TFGA. Has that been resolved? If not, when it is going to be resolved? It is the bane of many people's existence out there at the moment and there are a lot of questions being asked.

**Mr BARNETT** - Thank you for the question - a very important one particularly for the rural and regional communities around Tasmania. I confirm there has been a lot of work done on the private electricity infrastructure and I confirm what has been understood for a long time, that they are privately owned. I will ask the chair or CEO to summarise where we are up to in our involvement with relevant stakeholders, including the TFGA. Clearly, this is an important issue. TasNetworks is engaging with the TFGA and other key stakeholders to ensure clarity around the ownership of all private electricity assets and to ensure any doubt is removed. This has been an

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issue for past governments and we have come to the table. I acknowledge my predecessor in this role and the work he has done, and the leadership Mr Groom took to progress this matter. There are approximately 46 000 private electricity power poles and related infrastructure around Tasmania, so it is an important issue. Perhaps if the chair or CEO could add to that.

**Mr BALCOMBE** - The minister has done a very good job summarising where we are. I might just talk about our internal processes about how we have landed and confirmed that position.

We have done some work with the Department of Justice, which has oversight of electrical safety. We have been working in concert with the department since around June this year. That has involved two processes. The DHA went off and got some advice, which came back quite early in the process with a counter view based on some very preliminary information. Through our legal team we engaged special counsel to track through the history back to 1941, either through Hydro by-laws or connection arrangements with various customers over that time.

That advice confirmed that basically it means that we own to the first pole - 'we' being TasNetworks - and any infrastructure beyond is owned by the private landholder. That excludes where there is a transformer on that pole and the meter because we own it. The metering infrastructure is ours. When we confirmed that view internally, we then shared the advice we had sought with the Department of Justice and, based on that additional information, their view aligned with ours. Basically since then we have been working with stakeholders - most notably TFGA - in regard to that. We met with them as recently as Monday to take them through. I suggest that they still want to go off and understand the position more fully. We would put the offer to help them firm up that view, also from the perspective of offering the opportunity for us to engage with their members in particular, to help share the view and get everyone comfortable with that outcome.

**CHAIR** - To confirm, you are saying that you own the transformers and on any private land, whether it be a farm or whatever, you own the first pole from that -

**Mr BALCOMBE** - To the first pole, yes.

**CHAIR** - To the first pole. Just the wires to the first pole - so the first pole then becomes the domain of the private landowner. Is that what you are saying?

**Mr BALCOMBE** - Yes.

**CHAIR** - Your advice came from, you said, senior counsel - from whom?

**Mr BALCOMBE** - Jack Rush SC. Also, we engaged with the Solicitor-General as part of that process via the department.

Where, to some extent, this may create some confusion is that the Government, and the prior government, requested that Aurora and TasNetworks continue to be responsible for the inspection of those assets. Our people go onto the private landholders' land to inspect those assets. Why do we do that? We want to make sure they are safe. We want to make sure, from the perspective of vegetation management in particular, that the vegetation is under control around those assets. That has probably contributed to the confusion: we undertake that role on behalf of the state. Our badge people go on and inspect those assets. That may have contributed to the confusion. We do that as an obligation; we don't get reimbursed for that. Many other states that do actually include that in their operating costs but we don't do that. We do that as a service. Where we spot a defect, we pass



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that information back to the Department of Justice and it deals with the owner. That is probably something that has contributed to the confusion. As part of the stakeholder management process, we'll make clear what our role actually is and what our role isn't. What we don't do is own those assets.

**CHAIR** - I hear your answer, but I think there are other contra views out there.

**Mr VALENTINE** - A supplementary question on this. It gets very interesting when you look at liability. If you are inspecting the poles and the wires, I presume, are you saying the wires belong to TasNetworks or to the owner?

**Mr BALCOMBE** - Everything beyond the first pole.

**Mr VALENTINE** - Right, including the wires?

**Mr BALCOMBE** - Yes.

**Mr VALENTINE** - If you are inspecting those assets, not just your assets, and there is a failure, where does the farmer's -

**Mr BALCOMBE** - That's a very good question.

**Mr VALENTINE** - Especially if, for instance, there is a failure and someone is electrocuted as a result of the failure, it is your electricity before it gets to their premises. Where does that sit?

**Mr BALCOMBE** - It is a very murky spot, that is what I can say. There have been a couple of precedents, more recently. One incident I can talk about, where there was a pole that fell over on Bruny Island many years ago -

**Dr NORTON** - When I was CEO.

**Mr BALCOMBE** - When Dan was CEO of Hydro. The liability is unclear.

**Dr NORTON** - It was a fatality. Just to elaborate, we had inspected the pole, advised the landholder, the owner of the pole, that it was defective, and then subsequently they had not fixed the pole up. Very unfortunately, during a storm event a lady was standing next to that pole and it failed and killed her.

**Mr VALENTINE** - I can understand that because you had already notified them. I am talking about a situation where you have done the inspection, there is a failure but it hasn't been obvious that there is a defect in the pole.

**Mr BALCOMBE** - As I mentioned before, one of the things is that the Government has asked us to do this inspection on their behalf. One of the elements that hasn't been clear is actually ensuring that we have ability to access the land and also in regard to this question of liability.

**Ms FORREST** - A legal ability, you mean?

**Mr BALCOMBE** - Yes. That is another thing we have been doing alongside this clarification of - I suppose that's where we started with the Department of Justice, to work through this liability

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and access regime to ensure we had the right liability protections in place and allocation, and then, alongside that, to ensure our people had the appropriate access. Then, to some extent it has been overtaken by this ownership issue. Now the ownership issue has been clarified, we'll circle back to ensure we have the appropriate liability regime and access arrangements in place.

Private ownership presents a risk for distribution businesses all over the country. There are two examples I can cite. One is Endeavour Energy, a distributor in New South Wales, and Western Power in Western Australia. What occurred there was a fire - you might remember those quite severe Western Australian bushfires a few years ago - that started off a private pole and that private pole had been condemned. Western Power essentially had done everything appropriate within its control, but the only thing that hadn't occurred was that that customer had replaced that pole.

It was a similar situation with Endeavour Energy in New South Wales. The question comes that when you get into these legal situations, the lawyers will look for who has the deepest pockets. Irrespective of the fact that we have the appropriate liability regimes in place and the right protections, generally what would happen with private infrastructure is distributors will get joined into actions. That is why it is so important these inspections are done properly, and we have the appropriate notices. If we are not comfortable that the owner of those assets is dealing appropriately with the risks - that is, there might be a condition or vegetation over a looming high bushfire period - we can disconnect that customer until it is remediated. That is a fairly punitive outcome but it is a consideration of how you balance the risks with regard to bushfire risk and danger to the community versus the responsibility of the landholder. It is a very complex space and it does present a risk to this business and to the state. They will see us as a large enterprise and we will generally be joined in action. That is why we are working so hard as part of the inspection arrangement to ensure where there are defects, they are identified and then dealt with.

**CHAIR** - We will stick with the poles and wires on private land because it is a very important matter and there are other members who want to ask other questions.

**Ms FORREST** - Just clarifying, the transformer is owned by TasNetworks but the pole it's on will be owned by the landowner?

**Mr BALCOMBE** - My understanding is that even the pole the transformer sits on is owned by us.

**Ms FORREST** - I just wanted to clarify that because there have been some questions raised about depreciation of the assets. I notice on page 66 of your annual report there is depreciation of the transmission network and the distribution network. There has been a query raised as to whether TasNetworks, and formerly Transend and formerly Hydro has been depreciating the assets owned by the private landowner or just theirs. Can we be sure they have only been depreciating their own?

**Mr BALCOMBE** - I understand the question. There are two layers to that question. First, these assets are owned by the landholders, so therefore they don't appear on our books, they appear on the landholders' books. If that transformer and pole is owned by us, that would sit in our asset register. That is what we are depreciating.

The landholders own those assets so by rights they have the ability to depreciate them. This is one of the questions raised by us with the TFGA when we met on Monday. I can't answer this. Have they been depreciating those assets? I don't know.

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**Ms FORREST** - The farmers, you mean, or the landowners?

**Mr BALCOMBE** - It is not all farmers, we have to be clear on this. It is broader than farmers, with the greatest respect to our colleagues on the TFGA. From the point of view where there is a business purpose to that connection and those assets, the owner of those assets, being the private landholder, would be entitled to a depreciation deduction. The question has been raised as to whether they have been claiming those deductions -

**Ms FORREST** - That is a matter for them obviously, but during this period of some confusion about who owned them was there a period where perhaps TasNetworks was counting them as their own?

**Dr NORTON** - No. We always believed they weren't ours and we have never put them on our balance sheet or depreciated them.

**Ms LOVELL** - Going back to what Dr Norton was saying about disconnecting the power at the end if there was maintenance required and it wasn't done by the landholder, are there instances where there might be this infrastructure on somebody's land that is then owned by that landowner but the infrastructure is used to get power to a third property or another that is completely separate? Does that mean if that maintenance was not kept up and the decision was made to disconnect, that would impact on somebody who might have nothing to do with the property and the infrastructure on that property?

**Mr BARNETT** - Through you, Chair, thanks for the question. That is an operational matter for the CEO.

**Mr BALCOMBE** - In 99.9 per cent of cases, the private ownership issue is simple. Instances that you are referring to, where there are complexities, where there might be a private pole on one piece of land that subsequently feeds two properties, where there was a private line and then another private line off that, I think would be pretty rare. Generally what happens is our lines go through to a meter.

I am not saying it does not happen, but irrespective, it is up to the private landholder to ensure they do the maintenance. One of the things we can do is to say, 'Would you like us to do that work on your behalf?' If they do, they will sign an order to do that and we will bill them for it.

That is a service we offer. There are plenty of contractors out there that do that, but it could be something simple like a tie and we might have people on the spot at the time who can do that. I can't comment, unless there is a specific example that you are referring to. There are a few complex ones of those, and they are probably that 0.1 per cent that we have to work through with the customers to understand the issues.

**Ms LOVELL** - Thank you. Just one last question: there have been some opposing views put forward by, my understanding, the solicitor-general. The original view was that the infrastructure was owned by TasNetworks, now there is an opposing view. There is a lot of confusion around this and there is a lot of concern around this, as I am sure you understand. Will you be making that advice public?

**Mr BARNETT** - Through you, Chair, the CEO can perhaps add to this, there needs to be clarity around this matter. The Government is taking this very seriously. It has been around for not



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just a couple of years, but for probably a decade or more. The fact is we have come to a conclusion. We are confident of that. It is based on advice that TasNetworks received and the Solicitor-General's feedback and advice. I will ask the CEO to add to that.

**Mr BALCOMBE** - That is correct. The Solicitor-General has advised the Department of Justice as part of that process. We have sought our own advice. There has been a collaborative basis about how we share that information. Early in the piece the DOJ formed a preliminary view that it did not have all the information available to it. It had probably the most recent pieces of legislation, but it had not followed the whole trail. We are now totally comfortable that we, the Government and the Department of Justice are fully aligned on this with this outcome.

**Ms LOVELL** - Minister, you might be totally comfortable, but there are others who are not comfortable. In the interest of clarity, would it not be prudent to release that advice if you are relying on that advice to say that this is your position, and this is what has led you to feel so comfortable about it?

**Mr BARNETT** - Thanks for the question. That is not normal government practice, as you would know from past governments in terms of releasing our Solicitor-General's advice. The Solicitor-General's advice has been provided to the Government. It has been made available to TasNetworks. TasNetworks has received its own advice.

The Government, in consultation with TasNetworks, has supported TasNetworks' efforts to consult with the key stakeholders. That is now underway. That has been proceeding for a number of weeks and will be ongoing for a good deal of time. It is a very important matter. There needs to be clarity around these matters. The position now is very clear from the Government's and TasNetworks' perspective. Those consultations are being undertaken in a positive and constructive way.

**CHAIR** - To follow up, probably through you, minister, to the CEO. In terms of replacing a pole on private land is all done by private contractors now. Do you have any oversight at all on their charges? I have heard of many outrageous charges being levied on a private owner to replace a pole. Or do you just leave it to the market?

**Mr BALCOMBE** - We leave it to the market and if outrageous charges are being levied, I encourage customers to shop round. I realise it is not a huge market. We have benchmarks for what pole installations will be and would be happy to share that with customers. We have to be conscious that, though the business is regulated and has scale, we do not provide distortions to the market.

**CHAIR** - We are talking about 50 000 or 60 000 poles in the ground. To whom they belong I will make no judgement. You have stated the case.

**Mr BALCOMBE** - You expect a pole is about 50 years -

**CHAIR** - That raises another question that was brought to our attention yesterday. It is 50 years, half a century, since bushfires ravaged southern Tasmania. Pole life is around 50 years, so what sort of matters will be put in place to look at that? It could be a whole raft of replacements having to be done.

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Mr BARNETT - It is a fair question. To clarify before passing to the CEO, there are some 46 000 poles or thereabouts. You mentioned much higher figure.

Mr BALCOMBE - This figure is from a point of discrete, privately owned poles so there is no confusion - 43,871 poles.

Mr BARNETT - The other part of the question?

Mr BALCOMBE - The other part of the question was in regard to the condition of the poles. You are absolutely correct, Chair. I might ask Wayne to talk about this.

We inspect our infrastructure. I do not know whether you have seen this, but often there will be a ute with lights on the top when asset inspectors are going round. They effectively do the rounds of our assets, and they try to inspect poles once every five years - that is, the poles we own. We do that as part of the service we provide to government. We check the condition and then based on that, they will then say, 'Yes, it is another five years or we need to shorten the next inspection'. They could condemn the pole or suggest the pole is also staked, where basically a steel pile is driven down alongside the pole, which helps support the pole.

You are absolutely correct, we are 50 years from the bushfires and are seeing a fairly significant forecast with the pole replacement program. I might defer to Wayne.

Mr TUCKER - We replace the poles based on condition, not age. Fifteen years ago we started staking poles and the average staked pole probably lasts another 15 years, so we have extended the life of those.

We have the bushfire and staking aligning now, so from this period over the next, say, five to 10 years, our pole replacements could increase by up to 50 per cent, so from about 10 000 poles a year up to 15 000 poles per year.

CHAIR - Describe that stake to me.

Mr TUCKER - The pole normally rots at ground level or just below and what we do is we put a metal stake beside that which is in the ground and the top half bolts through the solid part of the wood.

CHAIR - That makes sense.

Mr TUCKER - Reinforcement.

Mr ARMSTRONG - This week it was reported in the *Mercury* or the news that the Deputy Leader of the Labor Party, Michelle O'Byrne, made a statement nothing was off the cards as far as selling Transend. What is the Government's position?

Mr BARNETT - The Government position is very clear. We have no intention and will not be selling any government business. There has been some conjecture; it has been in the public arena that Michelle O'Byrne made it clear on behalf of the Labor Party that they considering selling TasNetworks. When she was specifically asked if Labor wants to sell TasNetworks, she replied -

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Is selling TasNetworks the best way to do that? I don't know that yet. I don't think you should put anything off the table.

Clearly, that is part of Labor's plans.

Mr FARRELL - Point of order, Mr Chairman, this is about asking the Government what it is doing, not the Opposition. If we want to get political, we are more than willing to get political. That is not the right way to do this so I bring that to your attention.

CHAIR - I hear the member's point of order.

Mr BARNETT - I was asked a question; I am answering the question. The Government position is very clear. That of the Labor Party is not.

*Members interjecting.*

Mr BARNETT - Through you, Chair, I was asked by Ms Lovell on your right whether we are selling Momentum, so clearly the sale of government assets is an important issue and I have responded unequivocally that it is 'no'.

CHAIR - We will draw the line there, thank you.

Mr ARMSTRONG - It was something I wanted to know. I thought we were entitled to know what your position was.

Mr BARNETT - Exactly.

Mr ARMSTRONG - On Pay-As-You-Go power, it is reported in the *Mercury* today that people could be up for a significant cost if the meters continue because they need to be upgraded. Can you elaborate on that? Is PAYG here to stay?

Mr BARNETT - I am happy to answer that question. It came up yesterday in the Aurora Energy GBE hearing. Our Government's priority is the lowest electricity price possible and Pay As You Go is a very important part of that. That is the process currently underway and continues to be. We support it. The Aurora Energy response is that it is putting a business case to its board. That decision will not be finalised until early next year.

Our Government will be monitoring that very carefully and we will ensure it is at the lowest possible, if not minimal or at all, in any costs. We want to make that very clear. The low power prices is a Tasmania First energy policy that flows through to Pay As You Go, and we - and I as minister - will do everything in our power to ensure the lowest possible prices for Tasmania because the cost of living is a top priority issue.

It is an important part - it has been in the past, it will be in the future: Pay As You Go is important. As new technology comes on, there will be more opportunities for convenience, for choice, for controlling your power and how it is used.

I am happy to elaborate further but I think that summarises the position of the Government and Aurora Energy.

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**Mr ARMSTRONG** - So Pay As You Go is here to stay?

**Mr BARNETT** - Absolutely.

**Mr FARRELL** - The biosecurity issue was raised with us, and I know it is a concern for TasNetworks. The TFGA raised that, with meter readers going from farm to farm.

In the old days the meter reader could hop in the ute with the farmer and go down the paddock and read the meters down there. What is TasNetworks doing in regard to that? There is probably not a straightforward, simple solution apart from running a ute through a bath before you go to each different property.

**Mr BARNETT** - Firstly, metering is a very important part of the process for TasNetworks. It has arrangements in place working with Aurora Energy. Biosecurity is a top priority for the Government. Jeremy Rockliff has led the way and has demonstrated that through various budget initiatives to ensure that Tasmanians are kept safe. Perhaps the CEO could add to that.

**Mr BALCOMBE** - Mr Farrell, you are dead right, it is a challenge. Generally, access to most farmers' land can be challenging for our meter readers.

With regard to biosecurity, yes, we wash the vehicles between farm visits and at the end of the day we get the vehicles back to the depot where we have specialised washing facilities.

One of the opportunities that is looming is that you may have heard of the Power of Choice metering reforms. In essence, under the Power of Choice metering reforms, TasNetworks will no longer be involved in metering. Any new or replacement meter, as of last Monday when these reforms became live, will be what is called an 'advanced meter'. One of the abilities of those advanced meters is for those meters to be read remotely. Assuming you have mobile coverage, they can be read remotely. One of the options for farmers is to switch their meter to an advanced meter, and that will deal with a lot of these access issues and could remediate any biosecurity risks by remote readers.

**Mr FARRELL** - Is there a cost associated with changing over meters?

**Mr BALCOMBE** - Yes, there is. We are not privy to that information because, as part of that service it is offered by Aurora as a contestable service. We still have the legacy incumbent-regulated process. The meters that were there up until last Monday are all regulated. Anything new and replacement will fall into that contestable regime and they will be owned by Aurora. You will approach Aurora in regard to that.

**Mr GAFFNEY** - It is good that the remote smart meter is coming on board; it makes sense. A question raised yesterday with the TFGA was, 'Why don't they simply allow us to take a photo of the meter and forward it?' The case given to us yesterday was that he watched the meter, from some of your guys, call up, read the sign where it says ring the farmer or whatever, and they drive straight past and go down to it. I am not criticising that. It sounds to me as though people in the farming fraternity have an answer to how they could help out by taking that, and that would solve the biosecurity problem and would not be an issue. They said, 'If a farmer didn't do that, obviously your meter readers would have the right to go on.' It seemed to me to be a simple compromise to that issue, even though this new process is in place.

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**Mr BALCOMBE** - Thanks for the question, Mr Gaffney. The question is one of our systems and particularly of storage of photos and such. We do offer a self-read program. That means the farmer can self-read three times a year and then we come in and do a check read. It is slightly different to taking a photo. Some farmers do not avail themselves of that. There is a cap because we are still bringing our technology in - we are in catch-up mode. If you could think about how many photos we might get and the ability to store those, what happens behind that is still a very manual process. We would have a couple of people at desks, taking the data off those reads, storing the reads and loading them up into the system. It still remains a very heavily manual process.

From a systems perspective and a cost perspective, we do not think that is the best remedy. We offer this self-read service. I probably have to take it on notice how that goes with farmers. Bess, I do not know whether you have any perspective on that.

**Ms CLARK** - I believe a lot of farmers have a self-read service and we are obliged by law to do an on-site physical read. It reflects, unfortunately, that over time some people do fraudulent reads, whether deliberately or by mistake. The national framework requires a physical read and now, where there are advanced meters, that can be a substitute. Advanced meters do not require a physical read.

**Mr GAFFNEY** - That is good. The point raised yesterday - and the minister mentioned the work done on biosecurity through Jeremy Rockliff and trying to mesh them together - when the TFGA spoke to us, is that some the crops that are very sensitive and it could wipe out millions of dollars' worth. Surely, if there is a crop that is sensitive and the farmer does not want a meter reader coming on, they should be able to make some arrangements, especially at that sensitive time of the year, to contact and come up with something like you have just said, the smart reader. If that was out there, I think they would avail themselves of it.

**Mr BALCOMBE** - I agree, and all the farmer has to do is tell us not to go on the land and we would follow that.

**Mr VALENTINE** - How far away can the smart reader work? How close do you have to be?

**Mr BALCOMBE** - It's anything that has mobile coverage. If you're in a mobile zone, it will be read remotely.

**Ms CLARK** - It's different to the TasWater model in that respect.

**Ms FORREST** - On those meters, I heard, minister, that some of the smart meters for residential use aren't able to fit in the boxes so they have not been used. The meter reader has to go in and physically read the meter rather than read it from the street, which cuts down your efficiencies. Is that the case, or what is happening with those?

**Mr BARNETT** - I think you are referring to matters for Aurora Energy, but the CEO might have a view on that.

**Mr BALCOMBE** - I'm not aware of that. We have advanced meters at the moment and remotely read meters with some of our larger industrial customers on the distribution side. You would have to ask that question of Aurora. My understanding is they are only starting to install advanced meters from next week. We are in this transition phase at the moment, so I don't know the circumstances there, sorry.

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**Ms FORREST** - I am sure you would know, minister, that the Rentails project at Renison looks like going ahead, hopefully in the not-too-distant future. I understand some of their requirements to put in their fumer particularly will require a line upgrade and additional transformers. I wondered where this fits into the capital works program, or if it does, for TasNetworks.

**Mr BARNETT** - First, I'm certainly aware of the Rentails project and its plans and progress, and I congratulate the company for its work. We remain very positive about its plans and the jobs that will be created on the west coast. Specifically, regarding infrastructure upgrades from TasNetworks' point of view, I will pass to the CEO.

**Mr BALCOMBE** - I'm not aware of those. Wayne, I don't know if you have had any information on that.

**Mr TUCKER** - We have certainly done some work in understanding what it would mean for operations to recommence, but I'm not aware of the detail or what the actual outcomes of that work are.

**Ms FORREST** - I encourage you to get in touch with them because it could be a limiting factor to when they start.

I understand TasNetworks is basically at the mercy of the regulator in some respects, who assesses what its assets are worth and what TasNetworks can charge. If TasNetworks spends x number of dollars in improving an asset, as I understand it, it won't necessarily boost the regulated asset base. I just need to understand if that is correct. If that is the case, does this make the decision whether to spend money on an asset even harder? In that case, how do you decide? There is not much point having assets in really schmiko conditions if the asset doesn't count much in the regulated asset base.

**Mr BARNETT** - TasNetworks is responsible for the make-up in the order of 60 per cent of the electricity prices that residential and small business customers pay. They are a key ingredient for success and part of our Tasmania First energy policy to keep prices lower and secure supply. They have had a very positive year, but perhaps the CEO could add to that.

**Mr BALCOMBE** - As our chair said, our primary focus is on safety. If there is a safety issue, we will ensure that asset is maintained, upgraded or replaced. The other element is that we have done a lot of customer engagement. That customer engagement tells us that, in general, customers are happy with the current level of reliability. If we are considering upgrades to our assets that will improve levels of reliability where it's not required, we wouldn't do it, so safety first, reliability second.

Some parts of the network have been less reliable than probably what we see as the benchmark for our customers. We have done some work to improve reliability there. We started with a program when we first kicked off with our seven worst performing feeders. Some of the work there was quite simple - we replaced bits of conductor. We also looked at vegetation clearances and things like that. Probably the last thing we'd do is look to upgrade those areas but in general, particularly where we are below our regulated performance standards, we'll look to lift that.

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That is the process we go through. I will ask Bess to talk about the regulatory process and how when we spend money on assets that feed into the regulated asset price and then comes back to prices.

**Ms FORREST** - Before we go to that, it would be helpful to hear if one of your seven worst-performing feeders is one that feeds Rosebery and Zeehan. Is that one of them?

**Mr BALCOMBE** - I don't have that to hand.

**Mr TUCKER** - It is one of the feeders we find challenging.

**Ms FORREST** - Which reinforces my point of getting in touch with Renison.

**Mr BARNETT** - We have that note.

**Ms CLARK** - We are a very asset-intensive business. We like to think we are not at the mercy of the regulator because we have a very constructive relationship. We have worked hard to work with our customer base and then demonstrate to the regulator that the plans we put forward provide good outcomes for Tasmanians. We realise that we need a safe and reliable network, and that we have to deliver energy securely and remain affordable. We balance all that in putting forward our plans, which we will put to the regulator for the next time next year. We are very pleased because during the past year we had a revenue decision from the regulator that it fully accepted all our proposed capital plans on the basis they made sense and had been tested broadly with our customer base. When we put forward well-thought through plans, the regulator will do its full review of those plans. For our last two revenue-setting exercises, the regulator has accepted the capital proposals we have put forward. An incentive scheme operates across both our operating capital and service outcomes. We found it was prudent to overspend any capital. That is allowed in your asset base but with a penalty applied. It is saying, 'Be very careful before you overspend'. You're not fully penalised for overspending, but there is some incentive to think very carefully before you do.

**Ms FORREST** - The MIs haven't come to us this time as key stakeholders, but I do commend TasNetworks on the work it has done with major industry because the network charges was a big issue for them. Page 48 of your financial statements shows revenue fell in 2017. It is predicted to fall more - page 15. What are the expected dividends and equity withdrawals? How are you seeking to manage these falling revenues? It is a matter the Auditor-General also raised as an area of concern. He suggested the concern was about how TasNetworks is responding to the drop in revenue and the decreasing profitability.

**Mr BARNETT** - Thank you for the question. Before I pass to the CEO or the chair, I want to confirm the profit was \$93.9 million, just above budget by \$1.2 million, total return to government of \$176.2 million. TasNetworks focused on cost efficiency and it has delivered that result. There has been a significant reduction in network costs as of 1 July 2017. There was a 20 per cent reduction in networks costs that helped put downward pressure on price increases and counter the price impacts of the volatile National Electricity Market. I want to commend TasNetworks for its efforts, particularly over that 12-month period. It is consistent with the Tasmania First energy policy.

**Mr BALCOMBE** - I will comment on the revenue drop and then I will ask Ross to talk about our projections.

As a regulated business we have to apply to the regulator every five years for our revenues. As the minister has quite correctly pointed out, there was a 20 per cent reduction in the distribution component and network prices that became effective on 1 July 2017. That harks back to the revenue proposal we lodged for a two-year period for the years ended June 2017, June 2018 and June 2019. It is a two-year proposal instead of a five-year proposal. We have done that to align our transmission and distribution revenue proposals. So from 2019-24 both our transmission and distribution networks will be aligned.

That 20 per cent reduction translates to a \$65-million reduction in our revenues. Arguably that is a very big hit to our revenues. The outcome is that we are delivering very low prices to our customers from a point of view of trend. There have been a number of contributors to that. We have been able to deliver efficiencies in our business, take costs out and revise our capital program. A large contributor is the prevailing interest markets. Interest rates have declined from historic levels four or five years ago. Our weighted average cost to capital, which is the rate of return we get on our regulated asset base has fallen. That is a big driver of that price reduction. As a business we have to take into account that \$65-million reduction in our revenues to ensure we have sufficient funds available to invest in our assets and provide what we call a regulated rate of return to our shareholder. Our returns have to reflect the regulated returns that we are allowed by the regulator. We are quite comfortable that our projections reflect that.

There is some volatility to it but our business is somewhat at the behest of the financial markets and that flows through to customer prices. We are in a very sweet spot at the moment.

**Dr NORTON** - And it flows through to the return the owner gets on those assets. The owner is getting a lower return.

**Ms FORREST** - That was the other part of my question.

**Mr BURRIDGE** - I think Lance has covered that pretty well. Owning a business like this is like having a bond investment because it is based on your regulated asset base, in simple terms, multiplied by your weighted average cost to capital. In the current two-year determination on the distribution side, it fell from 8.28 to 6.02, well over 2 per cent. That is where the \$65 million comes from. It is that 2 per cent multiplied by the distribution RAB and that takes our revenue down. If you tax-effect that, it is going to take our profit down by about two-thirds of that, so it is around about \$40 million. That will then flow through to tax equivalents because tax is tax based on your profit and the profit is lower so the dividend payout will be lower as well.

**Ms FORREST** - I accept all that. I know the reasons for it and it has all been explained. Is there any concern this will impact on your rating for borrowings? I understand the reasons for the drop-away in the revenue and the profitability and the impact that will have on income taxed equivalents and, potentially, dividend payments. Is there any concern about the impact on the rating of the borrowing in terms of how you are seen by rating agencies or the level of gearing you will hold, even though TasNetworks holds a high level of debt and is heavily geared?

**Mr BALCOMBE** - One of the things we monitor very closely is our rating. The regulator has a model with a target level of gearing, which is 60 per cent as part of your regulated asset base. Our level of gearing is marginally ahead of that. It is something that we monitor closely. We also do that in concert with TASCORP as our only lender. They have covenant around that level of gearing. That sets a borrowing cap and we are comfortably within those at the moment. One of the



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things we need to do is look at our forward projections and work through those with TASCORP. From a credit rating perspective we are quite comfortably sitting at a consistent level, which, Ross, is?

**Mr BURRIDGE** - We work closely with TASCORP. We are investment grade, which is A and above. They are comfortable with the position we are in at the moment.

**Ms FORREST** - No letter of comfort required for TasNetworks then?

**Mr BURRIDGE** - No letter of comfort required.

**Dr NORTON** - We are their largest customer. We have a lot of interactions with them.

**Mr BURRIDGE** - We work very closely with Tascorp.

**Mr VALENTINE** - I was interested in the provision of non-regulated telecommunication services. Can you expand a bit on exactly what this is handling? You have \$18 million of revenue coming in. It is slightly up, which is good.

**Mr BALCOMBE** - What page are you on?

**Mr VALENTINE** - Page 53 of your report. Some time ago you actually - I am looking at a set of papers provided. A1 revenue is the table. Thank you.

**Mr BALCOMBE** - TasNetworks has a telecommunications network, as you probably gleaned from the fact we make revenue from it. That does two things - it serves the regulated business, in essence, we use that so all our assets and switchings around the state, particularly on the transmission network -

**Mr VALENTINE** - This is in-house communication?

**Mr BALCOMBE** - Yes. There is a regulated component. From our own regulated assets - then alongside Hydro Tasmania uses that as the basis of communication for operating its power stations. Alongside that, also when they have IT and such like going into their power stations, they are using our digital microwave services. That is part of that. We also have access to some fibre on our transmission network.

**Mr VALENTINE** - A significant amount of fibre, 16 075 kilometres-worth.

**Mr BALCOMBE** - That is right. Alongside also access to fibre laid with the Tas Gas pipeline. We offer commercial telecommunication services through that, what is called 'backhaul' services. We offer customers access. That is probably the lion's share.

**Mr VALENTINE** - Some time ago you were actually offering services across the wires. I was interested to know whether that is still continuing.

**Dr NORTON** - That goes back to Aurora days. Aurora spent some money and did some experimentation on using its distribution infrastructure for telecommunications. That project was terminated well before TasNetworks was established.

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Mr VALENTINE - It was not viable or not enough customers?

Dr NORTON - There were technical issues, but was not a viable alternative.

Mr VALENTINE - The revenue here then is simply from your other entities using the service.

Mr BALCOMBE - Customers.

Mr VALENTINE - Customers using the service. Thank you.

Mr ARMSTRONG - I noticed a customer complaints reduction of 12 per cent. Can you tell me what your main complaints are? Is it outage of power or something else?

Mr BARNETT - That is a very fair question. This is something that comes up pretty regularly, but is best if the CEO responds and outlines the types of complaints.

Mr BALCOMBE - The largest component of complaints is in regard to meter reading. What drives the largest component of meter reading complaints is access issues, particularly with home owners who have dogs. We have a very clear policy where we cannot see a dog on a property is constrained, or there is a note on the gate from the owner of the property saying the dog is restrained, our people are instructed not to access properties.

We have had one dog bite or injury this year. They are becoming rarer. It creates a lot of issues from a point of view of consultation. It is one of the things we are trying to improve. Ideally we will get to a system where we give customers a text a day in advance of their meter being read as a reminder to constrain the dog. Ultimately there is also an opportunity for customers to change out their meters to these advance meters, so we remove the need. By and large, it is the biggest complaint. To put this into context, our meter readers read somewhere between 600 and 900 meters a day so they have a very short decision time frame. When they see a property, these properties are logged on their data caps about where there is a dog. If they cannot see the dog is restrained, they will not enter.

That creates poor customer outcomes but, frankly, I make no apology. The safety of our people is paramount. Aurora, before it introduced this policy, was suffering about 12 dog bites a year and that was not sustainable. We have had one in the last 12 months, so is something we can manage and continue to work with our customers on self-read programs and things that present an opportunity to deal with this. The next one is in regard to this new metering opportunity.

Probably the other issue is with regard to connections and our timeliness, connections and engagement.

Ms FORREST - On the issue of outsourcing meter readers, is this happening and why has that decision been taken if it is?

Mr BARNETT - I can confirm there are new national metering rules that are resulting in a steady increase in the number of advanced meters. You have heard about the benefits of the advanced meters of having more control of what is going on at your residence or in your business. There are a lot of up sides in that sense in terms of residential, small and business customers and, as the CEO has indicated, it is commencing this past week. Those rules require advanced meters to be used in new installations when an existing meter needs replacement or when a customer

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chooses a retail service that requires an advanced meter. Clearly this is a matter, primarily, in which Aurora Energy and TasNetworks have an important role to play.

We have talked about the access issues.

**Ms FORREST** - Through you, Mr Chair, the CEO was talking about the reading of meters, the safety of his staff and avoiding dog bites. My question is: is meter reading being outsourced? A pretty simple question.

**Mr BARNETT** - That is a matter for Aurora Energy. We had that hearing yesterday with the House of Assembly. There has been a transition taking place in this past week. The CEO might wish to add to that.

**Mr BALCOMBE** - To be clear, we are in this transitional phase so what is occurring is that we are still responsible for reading the existing regulated metering fleet. Under the new arrangements, we are not responsible for installing meters any more.

At this stage, we continue to add the responsibility for reading meters. One of the things that is going to become complex is that as this transition goes further and further, our meter reading efficiency is going to be less. We could get to the stage where we are reading every second meter in the street rather than every meter as at the moment. Today there is no contemplation that meter reading is going to be outsourced.

**Dr NORTON** - This is our meter reading.

**Mr BALCOMBE** - This is our meter reading because we still have responsibility to read those meters.

**Ms FORREST** - Because you own the meters?

**Mr BALCOMBE** - We do.

**Dr NORTON** - We will continue to read our meters, but our fleet of meters will diminish over time.

**Ms FORREST** - So you intend to have no meter reading over a period of time or will there still be some you will be doing?

**Mr BALCOMBE** - They will be phased out effectively; it is probably 10 or 15 years, unless it is determined to accelerate it from a point of view of improved customer outcomes which could be efficiency and price.

At this stage, we are going to be phasing out. As these meters are replaced, we will have fewer meters to read in our regulated fleet and they will fall under the control of Aurora.

**Ms FORREST** - Thank you; it is good to have that explanation on the record so people can understand. That is why the questions are asked.

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**Ms LOVELL** - My questions are in regard to the software update being undertaken. Last year during this process it was advised this would be completed by October this year. Is that the case? Has that been completed?

**Mr BARNETT** - Before I pass to the CEO to respond more specifically, in terms of promoting Tasmania First and the use of Tasmanian suppliers, that is going very well. It was in the order of \$128 million, an increase of over 40 per cent from the 2015-16 year. I am very pleased with that and I want to commend TasNetworks on that.

**Mr BALCOMBE** - Thanks for the question. I am happy to be corrected, but I am not sure we have ever said the project would be completed by October this year. The current planning is that project will go live on 5 February. The first part of that project went live in February of this year. It has been delivered in two modules.

To be clear about what this project is - it is more than an IT project. This is a business transformation project. We inherited IT systems that were end-of-life. It was right of those businesses not to invest because they knew the merger was looming, so they chose not to invest in IT in particular.

One of the things we have focused on is how to improve process. We did not want to change process without understanding the systems that will underpin that. During 2015 we went to market and sought what was called an 'enterprise resource planning system'. We set out a list of requirements. We knew it was more than the systems because this will introduce a new way of working. There is going to be a lot of change. This creates opportunities to automate things we have previously done on manual systems.

The board approved the Agilis business case in October 2015. That project to date has gone very well. Ross is the sponsor and I might defer to him. The project introduces a lot of change for our people, particularly this second drop because it is on the asset management side. It is going to change and increase some responsibilities. It will change the responsibility of our field team because they will have mobility. They will be walking around with their tough books. They will get their schedules off their tough books and they will be registering the completion of jobs. I will defer to Ross about this second stage.

**Ms LOVELL** - If I could add to that question in case you would like to elaborate further. It was during the GBE process with the lower House last year. It is in the *Hansard* and it was Mr Balcombe who said, 'The project will be completed by about October next year.'

**Mr BALCOMBE** - It is my faux pas, I apologise.

**Ms LOVELL** - Sorry. Further to the question and related to the efficiencies you have spoken about, what has the impact been on jobs so far and what is the projected impact on jobs, specifically in terms of numbers around FTEs? How many jobs are you expecting to lose as a result of these upgrades and the efficiencies that will result?

**Mr BURRIDGE** - Let us talk about the project first. As Lance said, we went live earlier this year with release 1, which is the financial and human resource systems. That was under-budget and on time. Our benefits realisation is ahead of schedule on release 1. This is not all about job savings; it is about better management of our resources, better procurement of items, using our purchasing power to get lower unit prices for procurement and better ways of managing the business.

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Release 2 was initially scheduled to go live this year. We took a decision some months ago that going live with a large system just before Christmas was not the best thing to do because this part of the system has the biggest impact on our people. All our field workers will be impacted by having electronic time and work sheets et cetera. We have moved that to 5 February.

It is a pretty intense period at the moment because we are in what they call 'user acceptance testing'. We have more than 100 people working on that at the moment. We are making every effort to have that done before Christmas so we can meet the 5 February deadline.

We are under-budget on this release as well -

**Ms FORREST** - Is that much under-budget? I mean, it is a big budget.

**Mr BURRIDGE** - It is \$58.2 million. Off the top of my head, it's about \$1.8 million under forecast at the moment.

**Ms LOVELL** - Are you projecting that you will still be under- or on-budget with a 5 February release?

**Mr BURRIDGE** - Correct, yes. When we extended our timeline, it did not impact on our budget. We have worked with that contractor on that. The benefits realisation - your question goes to this - we are taking to the board early in the new year. It is well on track. It is about \$76 million net present value of those benefits. In release 1 we had a swap-out of skills. We had two people using the old system, one was redeployed in the business and the other one left the business. Then we had about three or four jobs come on to manage that new system release.

Benefit is not just about redundancies; it is about better processes. I am pretty safe in saying there are no immediate redundancies directly linked to this project.

**Mr BALCOMBE** - I think any redundancies would be at the margin. Jobs will change. This is what Ross says, the jobs of today will be different from the jobs under the new arrangements. There is probably going to be churn. It is ultimately whether people have the appropriate skills to step from the old to the new.

**Mr BURRIDGE** - When we go live 5 February, it's important to note that this will have a major impact on our field crews. We will be rolling it out in a very measured process. If we hit all our 600 people in the field on day one, that would be unmanageable. We will be rolling it out and we will have a little transition period.

**Dr NORTON** - It's important to say that the date is not hard and fast. If we have bushfires or some intense activity with our field crews at that time, we might have to look at marginally delaying it.

**Ms LOVELL** - That's sensible.

**Dr NORTON** - We will make sure it doesn't impact negatively on our crews at a time when they might be working with bushfires.

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**Mr BURRIDGE** - We will not compromise quality, because a compromise in quality will create a bigger problem for us in the future. We will make sure it's right before we go live.

**Ms FORREST** - A really quick one that will only take one minute to answer. Minister, what are the overnight borrowings of \$6.5 million on page 70? What do they relate to?

**Mr BARNETT** - That might take a little bit more than one minute, but let's have a look at page 70, look at the borrowings. I will check with our CEO or CFO.

**Mr BURRIDGE** - It is really just managing our working capital. We borrow from TasCorp in line with the regulator's guidelines of equal amounts in one to 10 years. We place that in large lumps with TasCorp. There are times day-to-day when we have additional cash to invest -

**Ms FORREST** - A big bill that day, 5 June?

**Mr BURRIDGE** - On 5 June, we would be trying to build that to a sizeable amount to place across the board. Because \$6 million by 10, \$600 000 per 10 year, would not be worth placing in that regard, so we borrow temporarily until we have enough to spread across in a meaningful manner.

**CHAIR** - Minister and members, I think it is an appropriate time to pull stumps, it being 1 o'clock. We will all take a deep breath and have some lunch. We will adjourn until 1400.

**Mr BARNETT** - Just to clarify our timing this afternoon.

**CHAIR** - Yes, we go from 2 p.m. to 3 p.m. and then you can relax and we will have another minister in.

**The committee suspended from 1 p.m. to 2 p.m.**

**CHAIR** - We will resume, minister.

**Mr VALENTINE** - I have a question and I am not sure if it is applicable, whether it should have been Hydro or Aurora. I was interested in the impact of the photovoltaic project, where feed-in tariffs were provided at 28 cents a kilowatt hour. People were able to invest in PV rooftop solar from a period of five years. Do you have in part in that, apart from the fact you transport the electricity that comes off them? Does it impact on your financials in any way?

**Mr BARNETT** - Yes, it does. There is quite a bit of detail that could be shared on the feed-in tariff. The Office of the Tasmanian Economic Regulator undertook some work on this in the past 12 months. There has been quite a bit of change over the years.

**Mr BALCOMBE** - There are a couple of elements. There is a grandfathered feed-in tariff that currently runs through to December 2018.

**Mr VALENTINE** - I thought it was August.

**Mr BALCOMBE** - December 2018. That is at around 28 cents. It is what the regulator calls the 'fair and reasonable feed-in tariff', which for the 2017-18 year is 8.929 cents per kilowatt hour.

## UNCORRECTED PROOF ISSUE

**Mr VALENTINE** - With respect to that first one, the 28 cents and the period of time, what sort of impact is that having on your financials?

**Mr BALCOMBE** - The retailers pay that but we reimburse the retailers for the gap between the fair and reasonable and the grandfathered feed-in tariff, which is about \$11.5 million per annum. We do not recover that from customers. Other jurisdictions currently, particularly Queensland, build that into their cost base and recover it back across their customers.

**Mr VALENTINE** - Do you pass that back to Hydro?

**Mr BALCOMBE** - We do not. We wear that as a business, and that comes through as a lower return out of our business. Queensland is transitioning to our model. Given its solar penetration, it is a much more substantial impact on their business. The other element is for those customers currently on that feed-in tariff, when they get to the 28-cent one and December next year, they face a bit of a cliff edge from no longer receiving it.

We are working with those solar customers. We have had some engagement about how we can put them onto a tariff arrangement that allows smooth transition and not such a large cost impact. I might get Bess to talk about some of the work we are doing.

**Ms CLARK** - We have been working with retailers in Tasmania and Aurora, which has all the small customers, and also with the Tasmanian Economic Regulator, which sets the standing tariff for small customers. Together we now offer a network tariff for the time-of-use network tariff that offers a discount for off-peak, which all your energy can go through. If you are a solar customer, it gives you signals when it is or not as expensive to use the network.

For Tasmania, we obviously have peak demand in winter and short days. In Tasmania, solar energy does not contribute to offset our peak, because we still need to move all the energy largely from big generators. As our energy market evolves, we are getting one battery application a week at the moment from customers connecting batteries. Over time, more and more customers are expected to consider batteries. Some of those customers who are on the grandfathered feed-in tariff are indicating they are considering whether they would install a battery when the feed-in tariff ends.

**Mr VALENTINE** - You are retailing batteries?

**Ms CLARK** - No, we are not retailing. The underlying cost driver for our network is the assets we have to provide to serve at peak demand, and the underlying connection to connect a customer to our network. We are providing price signals. A time-of-use tariff is providing signals to these customers. Quite a lot of customers on the feed-in tariff are indicating they are considering batteries to store energy. We are doing a Bruny Island battery trial to test that. This is providing some real benefits to the network.

We also are looking at working with Aurora and the Tasmanian regulator to introduce a 'demand tariff', which is about how much load you put on the network at any point in time as opposed to how customers traditionally pay for how much energy they use over three months.

We are looking at demand tariffs and proposing a heavily discounted off-peak demand tariff for these customers. We have a pricing reform working group, which has a cross-section of customers and stakeholder peak bodies to engage with them on pricing reform. We can consider

## UNCORRECTED PROOF ISSUE

ways we can move in this quite changing energy market to provide good pricing rules and, in the long run, support the lowest network costs and lowest delivered energy costs for Tasmanians.

**Mr VALENTINE** - As an entity do you handle the software component of the feed-ins and the like, or is it up to third parties to provide that to the individual householder?

**Ms CLARK** - Basically the data comes through the meter which captures what is coming into a premises; if there is a solar export, it measures that too.

**Mr VALENTINE** - It is going out?

**Ms CLARK** - With the trial at Bruny, we are working with a consortium that includes a partner called Reposit Power. They have a software interface that works with the customer who has a battery and solar combination to say, 'Should I be charging my battery? Should I be just using my solar, or should I be exporting back into the network?' It is all based on price signals as to what solution they could provide. Then, particularly on weekends in summer and holiday periods, when we have a higher demand on Bruny Island and limited network capacity, we send a signal to the customers saying, 'If you provide your battery power, you are a generator to the network, and we will pay you a premium because that is valuable to us.'

From that trial we are seeing we do not have to run the diesel generator we usually have to use because the combination of the price signals and this smart software is basically optimising energy use.

**Mr VALENTINE** - Are some of those battery providers able to work with their individual customers in a group, and are you, in those cases, simply charging a certain portion for the use of your network? How does that work?

**Ms CLARK** - All we ever charge is for the use of our network. That is our role in all this. In that trial we are in effect providing the customer with what is called a 'network support charge'.

**Mr VALENTINE** - What's that roughly?

**Ms CLARK** - I can't recall that; I will have to take that question on notice.

**Mr VALENTINE** - That's all right; I would just be interested to know.

**Ms CLARK** - We have three universities, including the University of Tasmania, involved in the trial, and part of the trial is to understand customer responsiveness to different price signals to work out what makes this model work. That is part of our research.

**Mr VALENTINE** - Thanks for that.

**Ms FORREST** - It makes you aware of your energy use when your electrician rings and says, 'What have you just turned on?'

**CHAIR** - Minister, I have a question came about a breach whereby you were fined \$60 000 by the AER. I will read a little bit of the background, '... has breached its obligations to customers,' - that is, TasNetworks - 'requiring assistance from life support equipment.' It goes on about



## UNCORRECTED PROOF ISSUE

TasNetworks saying the breaches were regrettable and working to ensure they were minimised in the future. The question is: what processes have been put in place to try to mitigate that?

**Mr BARNETT** - A fair question, an important matter. It has been raised in the public arena and TasNetworks put out a statement on that day. I will ask the CEO to respond.

**Mr BALCOMBE** - For a bit of context, the National Energy Customer Framework is a set of rules we are required to comply with. Under those rules we are required to give notice of outage. When we have a planned outage, we are required to give customers notice. In regard to life support customers, a life support customer is anyone deemed by a medical professional to require a constant supply of electricity at their premises. We are required to give them four clear business days' notice before we have an outage.

Chair, you are correct, we have been fined for three breaches of that life support obligation where we didn't provide adequate notice of outage. Probably the biggest driver of why those outages are occurring is that we have inaccurate information within our geographic information system. What is represented in our GIS mapping doesn't reflect the true connections of what is occurring on the network.

What we've been doing is to introduce some controls over and above that. That is a function of history, and upgrading our systems is something we need to do as these deficiencies are identified. Some of these connections go back 50 or 60 years, so some of the work we do is to go out and make more effort to scope the work. One of the pieces of work we've done is look at whether to consider carting more life support customers in the area just in case we inadvertently turn them off. We don't particularly like that approach because we create the expectation that customers might be turned off when they aren't.

What we have to do is improve our processes and over that introduce more checks and balances. Part of what we do is that our people go out into the field. One of these breaches that was referred to was where one of the guys actually lifted up a turret. You might recall you see the little turrets on the ground where we have our underground connections. He lifted the turret, checked the label and made sure he was pulling the right fuse but in the end, the label was incorrect. Despite the best intentions, we can inadvertently create these issues. That labelling was fixed.

There are some legacy issues. We are not trying to blame previous management about this. We need to do work to make our data more accurate. Alongside that, we have done some work ourselves. We recently has GHD, the engineers, come in and assess our processes. That report is going to our audit committee tomorrow week with recommendations.

I suggest this is a journey, but we are working really hard to resolve it. We realise it is not good enough. The countervailing perspective on this is that life support customers do not get notice of an unplanned outage. If there is an outage caused by storms and things like that, they do not get that notice. We suggest to those where there are critical aspects that they take their own action to ensure they have a continuous level of supply because we are unable to guarantee that 100 per cent of the time. We are working on improving the processes and we are working very closely with the Australian Energy Regulator in regard to this.

Unfortunately, we continue to incur outages - we had one a couple of weeks ago. Some of these things are manual error and we have to make sure we work out that manual error. There are some on a systemic basis that crop up from time to time.

The other element we are working on is that our hurdles with regard to life support are a little bit higher in Tasmania as opposed to mainland states. We are working with State Growth and the minister's office to ensure we have the appropriate derogation so we are working on a level playing field regarding these. These life support customers are very important. We are not trying to underplay the severity of this matter, but we want to make sure we have a level playing field compared to the rest of the country in that regard. We are doing some work there.

**Mr BARNETT** - Very briefly, I confirm with regard to those seven breaches that there were no health-related incidents. We are talking about life support, so it is important I put that on the record.

**Mr BALCOMBE** - Thanks, minister, that was a very good point.

**Dr NORTON** - The majority of customers who have life support requirements have sleep apnoea devices and, as Lance pointed out, for any customer who has a need for continuous electrical supply, they need to have an independent electrical supply because we cannot guarantee supply if there is an unplanned outage. It sounds like it is life threatening when we have a breach and I am not diminishing the fact we have to go by the rules, but I want to stress it is not something causing health issues.

**CHAIR** - Thank you. On page 36, the annual report talks about consultancies. Four out of the five consultants who were employed, over \$50 000, were from interstate. Is there not the talent pool there or was what you wanted to achieve not available within the state from consultants working here?

**Mr BARNETT** - I touched on this briefly before. As a positive for the 2016-17 year in promoting Tasmania and buying local and using Tasmanian suppliers, work provided by Tasmanian suppliers was in the order of 128 million, an increase of over 40 per cent from the previous year. That is very encouraging. Perhaps the CEO could add to that and address the specifics.

**Mr BALCOMBE** - Your point is valid, Chair. Where we can, we will always prefer to get these consultancy services from our local providers. For instance, Deloitte has a local office and I would be confident there would be some local people involved in that, albeit the engagement was signed up with the office out of Melbourne. We have other internal consultancy services. Our internal audit is done through KPMG. They are a national firm but we use their local office. Generally it is where we can't obtain the skills locally that we will source elsewhere. We certainly try to prioritise Tasmanian businesses.

**CHAIR** - I don't recall whether the quantum of those consultancies was noted in the annual report.

**Mr BALCOMBE** - These are.

**CHAIR** - They were?

**Mr BALCOMBE** - Yes, these are. Page 36.

**CHAIR** - Thank you.

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - There is something I want to pick up before we go on to another area, and for which we didn't get an answer. We were talking about the predicted falling revenues. Minister, I asked what were the expected impacts on dividends and equity withdrawals. What is the financial impact of that? How much less do you think the Government will get in income tax equivalents guaranteed for those dividends?

**Mr BARNETT** - Yes, the CEO and Ross, the CFO, addressed that.

**Ms FORREST** - Not in dollar terms.

**Mr BARNETT** - The CEO or the chair might want to add to that answer.

**Dr NORTON** - While they are getting the figure, I can indicate we are not aware of any planned equity withdrawals.

**Ms FORREST** - All the ones like Hydro are finished?

**Dr NORTON** - Yes, the Hydro one finished last year and there are none planned for this current financial year.

**Mr BALCOMBE** - Pardon me, I am just looking up the statement of corporate intent in our annual report. If we go to page 40 in the annual report, that is probably the best indication.

That shows the target we have at \$164 million for the 2016-17 year. We have to be conscious that these might be the accounting bases, not the cash bases too. So we might declare the dividend as part of the June financial statements but pay it in the current financial year, so we have a dividend from last year's profit that we will be paying off in December.

That shows that decline but, alongside that, we also meet the target of ensuring we met our regulated rate of return as a business.

**Ms FORREST** - A question for the minister. As I understand it, the dividend policy is still 90 per cent.

**Mr BARNETT** - Yes.

**Ms FORREST** - In view of the declining profits of TasNetworks, and it being a very capital intensive business, admittedly regulated, is any consideration being given to reviewing that dividend policy?

**Mr BARNETT** - Only in the context of the Tasmania First energy policy, which is to keep power prices as low as possible and targeting the lowest in Australia by 2022. That is for customers who are residential and small and larger businesses.

I think the statement of corporate intent is on the record and the chair might want to -

**Ms FORREST** - No, I am asking you about the Government's policy position on the dividend policy. It has nothing to do with TasNetworks. It is a government policy decision - it is nothing to do with the Tasmania First energy plan. What is the policy position regarding dividend policy with TasNetworks?

## UNCORRECTED PROOF ISSUE

**Mr BARNETT** - The policy dividend policy is consistent with the Tasmania First energy policy. When you say it has nothing to do with that, that is our policy.

**Ms FORREST** - It is at 90 per cent now. Is there any indication you will review that in view of the falling revenues that TasNetworks, a capital-intensive business, has experienced? It gives them less of their own money to invest in the business.

**Mr BARNETT** - That would be relevant to any future budget and any future decisions of the Government. We are addressing the 2016-17 annual report. I can answer questions on that. I am very pleased with the strength of the report before us.

With respect to any changes, that will be a matter for the Government down the track.

**Ms FORREST** - There is no plan to even review the dividend policy at this stage?

**Mr BARNETT** - If it is consistent with the Tasmania First energy policy for the lowest prices by 2022, we will maintain that policy. We are determined to meet those targets and we are quite confident we can.

**Ms FORREST** - Which targets are you referring to?

**Mr BARNETT** - There are two targets. The first target is to have the lowest electricity prices in Australia by 2022. The second target is to have 100 per cent renewable energy in terms of self-reliance from Tasmania on island by 2022.

At the moment we are sitting at 90 per cent. As a result of our policies and what we believe will be very positive feedback to the second interconnector decision and a range of other government policies, we will get to 100 per cent by 2022. I have already mentioned the Wild Cattle Hill wind farm, which is bringing on 144 megawatts, and Granville Harbour, which will bring on 112 megawatts, not to mention the \$300 million development for the first and \$280 million for the latter and the jobs that flow from that. I have mentioned the Robins Island and Jims Plains wind farms and \$1.6-billion development.

**Ms FORREST** - Through you, Chair, we have heard this a number of times. You have just outlined the very capital intensive nature of this business and the intention of getting to 100 per cent renewables. Is the dividend policy at 90 per cent making it more challenging for TasNetworks to invest in that to make sure we can get to that target? Is there any intention to review that policy in view of the pressures it can put on?

**Mr BARNETT** - I have already answered that and I will add -

**Ms FORREST** - We have not heard you say 'Yes' or 'No' once.

**Mr BARNETT** - to the answer -

**Mr ARMSTRONG** - Point of order, Chair. Are we just playing politics here or something?

**Ms FORREST** - No, I am asking a serious question about a policy position of the Government.

## UNCORRECTED PROOF ISSUE

**CHAIR** - I know where the honourable member is coming from. I can see the question she is asking. Could the minister nail that down to save all the to-ing and fro-ing?

**Mr BARNETT** - I am happy to respond but I have already answered it. I cannot predict what a future government might do. You have seen the success we have had in the last 12 months, in this financial year. You have seen the policy parameters we have in place. We are determined to reach those policy parameters. I have referred to a \$1.6-billion wind farm development in the member's electorate that she has not asked any questions about today. That is incredible. Putting that to one side, the position is very clear.

**Ms FORREST** - I have asked about other things in my electorate.

Chair, the revenues are falling over the next two to three years. It is in the annual report, the very good annual report you refer to. My question is valid and relevant. Is any consideration being given to review the dividend policy from 90 per cent in view of the need to meet your Tasmania First energy policy targets, which in the current environment provide a pretty tough ask for TasNetworks?

**Mr BARNETT** - The Government has an ongoing role in terms of its decision-making. It monitors the situation on a regular basis, works very closely with all the energy businesses, and will continue to do so, and make decisions beneficial to the Tasmanian people consistent with our Tasmania First energy policy.

**Ms FORREST** - Chair, can you ask the minister to answer the question? Is there likely to be a review of the dividend policy?

**CHAIR** - You have asked a question.

**Ms FORREST** - I know, but he has not answered it.

**CHAIR** - I think the minister -

**Ms FORREST** - He is not going to answer it. Okay, let us move on to the next thing.

**Mr BARNETT** - The member obviously may not be satisfied with the answer. I have answered the question probably three or four times; I am happy to answer it again, but it is clearly an attempt to waste the committee's time if she asks it again.

**Ms FORREST** - I do not think I am wasting the committee's time.

**CHAIR** - I think that the honourable member's question is fair, but you have answered it in an oblique way. You have mentioned that it will be an ongoing matter that you will consider.

**Ms FORREST** - He has not even said that, Chair. That is not what he said.

**CHAIR** - We are at an impasse.

**Ms FORREST** - I will move on to another area if he is not going to answer that.

**Mr BARNETT** - Chair, I do not wish to be verballed and told what I have said or have not said. I have made it perfectly clear. This is a matter the Government maintains and supports and continues to review from time to time consistent with the Tasmania First energy policy.

**Ms FORREST** - Chair, TasNetworks and Aurora before it handed over to TasNetworks has spent a lot of money on IT. When I looked over the last few financial years from 2015-16 when Aurora's expenditure was taken into TasNetworks, there has been software spending of \$373 million - \$156 million by Aurora, taken over by TasNetworks and a further \$74 million over the last three years by TasNetworks.

It is a lot of money being spent on software. By anyone's estimation that is the case. I understand some of this is the Agilis project. I am interested in why so much is being spent on IT, particularly software.

**Mr BARNETT** - The question relates to important matters that keep the business up to date, twenty-first century, cutting edge. We have had quite a discussion about this prior to the lunch break, but I will ask the CEO to add to the answer we provided then.

**Mr BALCOMBE** - We are a very IT-heavy business. We are relying on information and operational technology. Operation technology is the assets that run the network with a SCADA system. We have our own business systems, Agilis Investment. We have the interface between ourselves, the retailer and the market operator from a perspective of metering. Members might recall there were some expenditures undertaken by Aurora in preparation for full retail contestability. That expenditure was approximately \$35 million on those market systems. That gave us as a business the opportunity to swap customers between retailers. Unfortunately, that did not manifest itself because full retail contestability has not emerged, albeit with the small business customer where ERM and Aurora are competing. We continue to do that on the back of these Power of Choice metering reforms and have invested close to \$15 million to upgrade our market systems. We have to keep updating these systems. Our forward projections indicate those market systems will reach end of life at around 2022 and will need replacement. We have that built within our forward projects going to the AER with our revenue proposal early next year. We become more reliant on IT systems and some of these systems are old and need replacement. The SCADA system is mission-critical. We have to ensure we continue to keep that up to date.

Probably the other element where there will be more expenditure was in regard to cyber. The board has just signed off on our cyber strategy. That is an enterprise-wide initiative because cyber is as much about what you have from a perspective of your software preventions but it all stems back to human behaviour and appropriate training of our people. We are working with our email in particular in regard to cybersecurity because ultimately cyber and transmission is in the national interest and AEMO is very concerned that all the transmission and distribution businesses have appropriate cyber practices in place. The industry is collaborating and doing a lot of work.

I probably have not answered your question specifically, but we are a very IT-dependent business and continue to be that. If you think about what we have now with our distribution system, the visibility of solar with a large generator, approximately 100 megawatts of solar installed - we do not know where that is. One of the ways we think we can get a better handle on where solar is on our network is through technology investment.

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - So why do not you know where that is? Don't you have to put in an application when you are feeding back into the grid? Are you talking about the ones that are not feeding into the grid?

**Mr BALCOMBE** - Yes, all we know is they are solar connections. From a point of view of how it all operates, what it is doing at the time - is it coming in?, is it coming out? - we do not have access to all metering and suchlike. It is about understanding what the impacts on the network are. This is becoming a bigger issue on our networks and is going to be solved to some extent by further investment in technology.

**Dr NORTON** - The other point is we are a regulated business. Our revenue determinations are overviewed in excruciating detail by the Australian Energy Regulator, and one of the areas they concentrate a lot of attention on is our capex on IT. They need to be convinced that what we are doing is justified and ultimately in the best interests of our customers.

**Ms FORREST** - Looking at page 23 of the annual report - the opex and capex breakdown there and your budget and actuals in table 5 there where you've fallen a bit short on both of those: do you expect to meet both in your budget next year?

**Mr BALCOMBE** - I am sorry, where?

**Ms FORREST** - Table 5 on page 23.

**Mr BALCOMBE** - From the point of view of our results?

**Ms FORREST** - Yes.

**Mr BALCOMBE** - We are actually tracking ahead at the moment. We are about \$10.5 million ahead of target on a P&L perspective because we have recovered more revenue than planned from customers. That is good news for customers because we hand all that back next year under the regulated arrangements.

**Ms FORREST** - How much of this relates to software, just going back to that heavy software reliance? Do you have a percentage or an idea how much relates to software?

**Mr BURRIDGE** - Our software assets depreciate over 10 years, so they are a fast depreciator. You see a bit in our forward projections with depreciation going up with things like Agilis Networks being depreciated quicker. As far as direct opex, it is difficult to pull that out from these numbers. It certainly has an impact, but it has a payback too, so we have an investment in software. One is, as Lance says, a compliance issue but things like Agilis are going to deliver us \$76.9 million-worth of benefits over that 10-year period. It is not just a cost.

**Ms LOVELL** - Minister, I have some questions around Tariff 41 and hydroheat tariffs. In August 2015 your predecessor Mr Groom told the *Mercury* the state Government opposed the removal of tariff 41; he said -

We have made it clear to our energy businesses that we will not support any changes to tariffs which will see Tasmanians worse off.

However, since that date the tariff has steadily risen. In November 2015 Labor tabled a petition signed by 450 Tasmanians calling on the Government to categorically rule out changes to Tariff 41. To date there has been no response to that petition. My question is: when will the Government respond to that petition and is it your position, as it seems it was the position of your predecessor, that Tariff 41 should rise?

**Mr BALCOMBE** - One of the objectives under the revised national energy rules and under the regulatory arrangements is a requirement for distribution businesses, in particular, to move to what is called cost reflective tariffs. Bess gave some background about that because consumption-based tariffs as they work at the moment do not reflect the cost to customers of how the network is built out. In particular, solar customers receive a subsidy because their net consumption is lower than a customer who does not have that. There are cross subsidies right across our tariff suite, even between residential and small business in particular.

At about the time you referred to, we went out with a consultation document as part of our shift towards cost reflective tariffs. It was a consultation document only, where we suggested over time we sought transition away from Tariff 41 on the basis that continued cross subsidies was - Tariff 41 is a hot water and heating tariff - are encouraging people to use the network at the wrong time. On a cold winter's morning we are increasing demand through a low subsidised tariff as opposed to sending the right signals to customers.

You are right, it was unpopular. Mr Groom, the minister at the time, intervened in the process and made it very clear to us at TasNetworks that any transition had to be done in a very gradual manner to ensure there was no price shock to customers.

On 1 July this year we had a 20 per cent reduction in distribution prices. We took the opportunity to rebalance between the standard household tariff and Tariff 41.

For about 98 per cent of customers that resulted in, I think, a net 9 per cent increase across those two tariffs. While we rebalanced, that still contributed to an overall benefit to customers because ultimately this is very much a long-term game. If we are going to start adjusting customers' behaviours and prevent ourselves from building out the network, which really is the principal cost driver of the network, we will have to change customers' behaviour.

We are also cognisant of the impacts of doing that too quickly. We are doing it very gradually; we are talking about a 10- to 15-year time frame, but we will take opportunities, as we did on 1 July, to accelerate that because we are able to package it with what we were doing with regard to the standard Tariff 31 arrangements.

It is something we continue to consult on. As part of our regulatory process, we are required to prepare and lodge what is called a 'tariff structure statement', which talks to this issue in particular. If you were to ask the regulator and some of the other overseeing bodies with regard to these tariffs, they would argue that we should be going faster, but we are very cognisant of the impact on customers. It is a slow and gradual transition, but we will take opportunities to accelerate it when we can.

**Dr NORTON** - Tariff 41 continues to be in place and there is no plan to scrap it, but the differential benefit is less compared to the standard tariff than it was because of the advantage we took. What happened with the new prices in the middle of this year was that non-Tariff 41 customers got a bigger reduction in cost than Tariff 41 customers.



## UNCORRECTED PROOF ISSUE

**Mr BARNETT** - To confirm what has been said by the CEO and the chair, Tariff 41 is linked to Tariff 31, but Tariff 41 is here to stay. For hot water and heating, it is here to stay. We have made it very clear that our Government is a government of low power prices and the Labor Party is the party of high power prices, with a 65 per cent increase under the previous Labor-Greens government.

**Ms CLARK** - The other thing that is worth understanding by the committee is that Tariff 41 is a retail product. TasNetworks has what is known as our network Tariff 41. We are one part of the end customer. It is worth noting our network charges are an input to that, but the retail tariff is the one the customer sees.

**Ms LOVELL** - Last year TasNetworks said there were 6000 faulty Cable PIs at large after a couple of them caused fires in customers' homes. How many of those 6000 have been recovered, and how many more since then have been recovered in the last 12 months?

**Mr BALCOMBE** - I will have to take that question on notice because we thought that one would be dealt with. What I will say is that they are a very important device. Generally, if these items fail, they fail early. We are confident we have captured most of those items which have either been returned or have been out.

You might have seen we have been running a few ads lately focused on public safety with the catchery 'When did we forget about electricity?' Cable PI will be one component of that. We have improved our processes, so if you ring up and ask for a Cable PI, you will get one within two to three days. To the extent we can, we have pulled them out of the system, but we are confident there will be no further issues with regard to the faulty devices.

**Ms FORREST** - Page 81 of your annual report - could you tell me a bit more about the accrued income and unbilled use of system included along the receivables on that page? Receivables are only about 15 per cent, whereas accrued and unbilled income is 85 per cent, as I read it. Why are there the disproportionate amounts?

**Mr BALCOMBE** - I will defer to Ross on that question. It is a very good accounting question, Ms Forrest.

**Mr BURRIDGE** - With recruit income not billed, we have earned it, but not billed that out to a customer. That might be for all our lines of business, the unregulated part as well - telecommunication services, data centre services - where, at 30 June we provide the service but the bill has not been provided. The unbilled user system is a calculation that anticipates what we have not read in the market.

**Ms FORREST** - You have not what?

**Mr BURRIDGE** - Have not read - meters have not been read as at 30 June. There is an estimation process that accrues that income that we will receive in the next year. It brings that income to account on an estimate basis and then it will be brought to account as people are billed.

**Ms FORREST** - It would be good if you could have a chat to Hydro about how you do this because they do not do it as well as you. Maybe you would like to talk to the CFO at Hydro. We have had quite some discussions about that previously.

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**Mr BURRIDGE** - We can do that. I used be CFO of Hydro, only acting CFO.

**Ms FORREST** - Maybe it has fallen away since you left.

**Mr BURRIDGE** - Maybe.

**Ms FORREST** - Your estimates have been reasonably accurate, do you think, in this area? The Auditor-General raised the high level of estimation in Momentum's area that is unbilled. Is yours generally fairly accurate?

**Mr BURRIDGE** - In the early days of TasNetworks we had this tested - and we are not laying blame on our legacy businesses - and we picked up an unbilled amount at the start of TasNetworks which, when we went to receive the cash, did not match and we found an error in the process so we fixed that error.

**Ms FORREST** - That was the takeover from Aurora?

**Mr BURRIDGE** - Correct. It tested our processes in the first few months and I am very confident these are accurate now.

**Ms FORREST** - I want to correct something I said earlier. I said there was \$373 million on IT. That was including the Hydro spend as well. I had added them all up because there is a lot and that is a huge amount spent on IT. We do have to control the system; I understand that.

**Mr VALENTINE** - Some questions on your asset management processes. What is the status of your assets overall? Are you behind in maintaining them or in front? What is the model you use when it comes to ageing assets?

**Dr NORTON** - I will give a brief overall contextual statement. The transmission network in Tasmania has had major investment over the last 20 years. It was not in a very good state. During the old Hydro and then Transend and now TasNetworks but particularly during Transend, a lot of money was invested in upgrading and strengthening the transmission network and so on. Generally speaking, our transmission network is in good shape. Our distribution network is probably not in as good a shape. We heard before that we have pole replacement challenges for a lot of the poles that are 50 years old or ones that were replaced at the time of the bushfires.

In the distribution space, we have had a lot of focus over the last 12 months or so on vegetation management. If you look at the financials from last year, our operational expenditure was over-budget and the board made a conscious decision that we needed to have a more intensive program of vegetation management.

As an overview, transmission is in better shape than distribution, but our distribution system is in pretty good shape but it is not quite -

**Mr VALENTINE** - Can you describe the difference between distribution and transmission? I think a lot of people out there probably think they are the same thing.

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**Dr NORTON** - It is big towers and little towers. The transmission is the 110 kV and bit of 220 kV, large transmission towers, and the distribution network is primarily the 11 kV and then 240-volt system around urban areas and what you see in rural areas.

**Mr VALENTINE** - It is your highways and your little streets.

**Mr BALCOMBE** - I might get Wayne to talk about that. This question is right up his alley. From a point of view of how we understand the condition of the network, I will let Wayne answer that.

**Mr TUCKER** - From an asset perspective our chairman is right. The transmission network is in pretty good shape. We need to invest a fair bit in the distribution network over a long period. It is a fairly sustained investment. The age of the assets is a factor. It is not the key factor with regard to the management of the assets; it is more the condition of those assets. Some assets by their nature and the circumstances in which they are in service will last beyond their normal life. On other occasions different designs do not. We manage by condition rather than by age.

**Mr VALENTINE** - In doing that, when you get a component failure, like a tower for instance that might fall over - I do not know how often that happens, probably not very often - do you then re-age that type of asset on the level of failure that you are getting? I am interested in how you do that. I call it 'aging'; I am not talking about the years.

**Mr TUCKER** - We have strategies for each asset category or asset class or a type of asset. We look at the reliability and the performance of those assets, look for underlying trends, if the information tells us about the condition of those assets, and then we modify our strategies to manage the performance of those assets to acceptable levels. We might bring forward replacements or we might increase condition monitoring or increase maintenance practices, for example.

**Mr VALENTINE** - You are not leaving yourself open to major shocks as a result of a major weather event? That is the sort of thing I was interested in.

**Mr BURRIDGE** - We continually look at the assets and the performance of those assets. As you mentioned before, major weather events are something we are looking at and we continue to do more work on that to be sure our assets can withstand any changes.

**Mr VALENTINE** - In terms of meeting the financial demand for asset maintenance, do you use a general depreciation on each of the assets and take the asset maintenance out of that bucket? How do you manage the financial side on a daily basis? If something falls over, do you have a depreciation schedule and you grab the money out of that bucket?

**Mr BURRIDGE** - We have operating budgets. Corrective and emergency maintenance is based on the last trends and we undertake those repairs as required.

**Mr VALENTINE** - You revisit that on an annual basis or less than that?

**Mr BALCOMBE** - It is at least annual and reported monthly. For instance we have a 10-year asset management plan, but we are crystallising that with regard to transmission distribution. We have used that as a key component to incorporate into our revenue proposal. Alongside that we also produce a very important planning document, which is our annual planning report. It is a border-proof document. We consult widely in its preparation and after its publication because that

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flags where we see areas of potential investment coming. It is a good consultation document so people understand what we are doing. It is a very important piece of work for us.

**Mr VALENTINE** - You would not be using things like just-in-time planning for asset maintenance like Hydro might?

**Mr BALCOMBE** - No, we are trying to move away from reactive to proactive. Unfortunately, with the nature of our network, things break. That is the reactive element. What we are trying to do is be more predictive. The transmission network is a few large assets whereas the distribution network is millions of small assets. There will always be a reactive element to that but we are trying to get to a space where we are more predictive so we understand condition and trends. We talk about the poles so we know there are issues with poles. Other elements will come forward over time as we get a better handle on this.

**Mr VALENTINE** - What is the basic policy on vegetation management? Do you only clear under lines on public land and leave private landholders to be responsible for clearing private land?

**Mr BALCOMBE** - Yes, at a very high level. Vegetation spend is our biggest single component of expenditure. We are spending close to \$20 million between transmission and distribution.

We are in catch-up mode. It took us a couple of years to understand the condition of the vegetation management so we have accelerated that spend, as the chairman indicated. We brought a proposal to the board where we needed to accelerate that because we were not comfortable with the state of the vegetation.

Ideally, again it becomes less reactive. Once we get the vegetation on the network to the state where we are comfortable with it, it becomes more cyclical. We can travel around the state as opposed to jumping on various hotspots where vegetation has encroached on the network.

Again, once we are into that regime at the end of next year, we would be able to change our contracting arrangements and benefit from that as well.

**Mr VALENTINE** - In a suburban context, if you have main lines in the street going from pole to pole, you would keep those clear but with house connections inside properties you would expect the landowner to do that with an approved contractor?

**Mr BALCOMBE** - Yes.

**Ms FORREST** - How is the \$10 million TasNetworks is paying for the feasibility study for the second interconnector being funded?

**Mr BARNETT** - It is being funded through TasNetworks and it is a very important project. We are proud of it. It has been announced on the public record but if you wanted to add to that -

**Mr BALCOMBE** - Thanks, minister. There are two elements to this. It has been announced as a \$20-million project, with \$10 million to be funded by TasNetworks and \$10 million to be funded by the Australian Renewable Energy Agency, ARENA.

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In order to access that money from ARENA, we have to go through an application process. In order to prepare that application we have to scope out the project. Bess has a new job - as of last Monday week, she is heading that project. It is a very significant and ambitious project. The other element to that is that there is a governance arrangement around this.

With respect to TasNetwork's component, we have to take the project to our board. I would be comfortable to say to our chairman that TasNetworks and ultimately the Government would bear the cost of this project. It won't be passed back to customers. It will ultimately be reflected through lower returns from the business - that is, through lower dividends.

**Ms FORREST** - It is another reduction in return back to Government, with the intention of the \$10 million less.

**Mr BALCOMBE** - Yes, but that is over a few years. It will probably take somewhere between 18 months to two years to complete that project.

**Ms FORREST** - I thought there was a 12-month requirement.

**Dr NORTON** - We anticipate that by the end of next year we will at least have an interim report produced. However, we cannot guarantee that all the work is going to be done by December next year.

**Ms FORREST** - Are TasNetworks and Bess doing all the work or are other people doing it?

**Dr NORTON** - We will be using outside advisers to do a lot of the work.

**Ms FORREST** - Does the payment of consultants account for some of the \$10 million spend?

**Dr NORTON** - Yes. The \$20 million - none of that money will be spent internally. We are not going to get any money -

**Mr BALCOMBE** - Yes we do. It is incremental spend, a combination of our own resources and external resources that we use. ARENA will fund half of that - \$10 million - assuming the spend is \$20 million. We have to go through a process with ARENA to access that money. There is a governance process we have to go through with ARENA.

**Mr VALENTINE** - To make sure you are spending it properly?

**Mr BALCOMBE** - To make sure it is spent on the right things because, in the end -

**Ms FORREST** - They have to approve the way their work is done.

**Mr BALCOMBE** - Yes, that is right.

**Mr BARNETT** - Through you, Chair, in answer to that. It is a joint venture, the work is commenced. The announcement was made a few weeks ago. Obviously there are a lot of boxes to tick, and i's to dot. It is important work.

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The federal minister has made it clear that it is national infrastructure. It is a very exciting project. The feedback we have had is very positive, including on the north-west coast with the major development up there.

TasNetworks is working cooperatively and collaboratively with ARENA in consultation with the state Government, and we are excited about this new project.

**CHAIR** - Thank you, minister. On behalf of the committee, thank you very much for your time and thank you to all your advisers and everybody else.

**The Committee suspended at 3 p.m.**



7 December 2017



**PARLIAMENT OF TASMANIA**

**LEGISLATIVE COUNCIL**

**GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A**

**TASMANIAN PORTS CORPORATION PTY LTD**

**HON. RENE HIDDING MP**

**Thursday 7 December 2017**

**REVISED EDITION**





# UNCORRECTED PROOF ISSUE

Thursday 7 December 2017 - Legislative Council - Government Businesses Scrutiny Committee A - Tasmanian Ports Corporation Pty Ltd

## LEGISLATIVE COUNCIL

### GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Thursday 7 December 2017

#### MEMBERS

Mr Armstrong  
Mr Farrell  
Ms Forrest  
Mr Gaffney  
Mr Hall (Chair)  
Ms Lovell

#### IN ATTENDANCE

Hon. Rene Hidding MP, Minister for Infrastructure

Ministerial Office

Mr Richard Wilson, Deputy Chief of Staff

Tasmanian Ports Corporation Pty Ltd

Mr Stephen Bradford, Chairman

Mr Paul Weedon, CEO

Mr Geoff Duggan, Chief Financial Officer

The Committee resumed at 3.06 p.m.

**CHAIR** (Mr Hall) - Welcome, minister, and for the purposes of the *Hansard* could you please introduce your team at the table?

**Mr HIDDING** - Thank you, Chair, it is nice to be here today for the scrutiny of TasPorts. On my left I have the Chairman of TasPorts, Stephen Bradford; on his left, Paul Weedon, the CEO; and on my right is Geoff Duggan, the Chief Financial Officer.

**CHAIR** - Minister, I invite you, if you like, to give us an opening statement.

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**Mr HIDDING** - From the shareholder point of view, TasPorts performed very well during the 2016-17 financial year under the leadership of the chair, Stephen Bradford, and his CEO, Paul Weedon, backed by his own management team. The board remains firmly focused on facilitating trade for the benefit of Tasmania through the commercial provision of infrastructure and services.

TasPorts last year delivered a profit of \$4.8 million. This is substantially up on the 2015-16 profit of \$1.5 million and is the second year in the row that the company has delivered a profit. This company is absolutely focused on its commercial drivers. The consolidated after-tax profit was slightly lower at \$3.2 million, which takes into account the loss of the Bass Island Line of \$1.7 million.

TasPorts is committed to growing the business and this was very evident last year. TasPorts continues to plan ahead with its port master plan project, which will deliver detailed strategic plans for each of its ports. More details are expected to be announced in 2018 on that project.

Total freight volumes grew by 3.6 per cent, with a total throughput of 14.3 million tonnes in the year in question, compared with 13.7 million tonnes the year before. A total of 1.5 million tonnes of product went through the Burnie Chip Export Terminal, a 30 per cent increase from the previous financial year.

TasPorts' forestry business continued to grow. During the financial year it represented 23 per cent of the corporate gross revenue. Total forestry export volumes increased by 21 per cent, so there is a continual growth there. TasPorts helped the world's largest container shipping company, Maersk Line, bring a new weekly container service into Bell Bay.

The company continued to deliver the most significant refresh of its marine fleet in a generation through its fleet renewal program, with the \$2.5 million state-of-the-art pilot vessel *Hellyer* coming into service in Burnie, and the very powerful \$4.1 million tug *Yandeyarra* has now arrived in Hobart. We can see that buzzing around the port, bringing in many of the cruise ships.

TasPorts established Southern Export Terminals, a joint venture log export terminal, with Qube Ports to provide certainty for the southern forest industry. To date, three, 11 500-tonne shipments have occurred in April, August and November, and volumes continue to grow.

TasPorts also successfully set up the Bass Island Line shipping service during this year in question for the King Island community. BIL, a wholly owned subsidiary of TasPorts, began operating in April and has provided a safe and reliable service despite some challenges. A new faster and larger boat will be coming aboard early next year.

The cruise ship sector continued to grow rapidly, and the booming industry shows no sign of slowing down. A total of 129 cruise ship visits are booked for 2017-18, an increase in calls of more than 120 per cent in just three years.

These are very exciting times for TasPorts and I have great confidence in the future of TasPorts as it continues to grow and deliver for its customers and stakeholders and the Tasmanian community as a whole.

**CHAIR** - I might start with a general question. As you have talked about, we have the Hobart port down here with the cruise ships and the Antarctic stuff. The three more commercial ports, if I can put it like that, are in the north and the north-west. In terms of a longer term strategy, do you

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really see any more specialisation of those ports in the north and the north-west? For example, Burnie puts out more containers - is there a strategy you are working on or do you have a mixture of the whole lot?

**Mr HIDDING** - Yes. Ordinarily, you would look at, say, the three northern ports and you would say, 'Why would you have three? Collapse them into one.' Of course it is uniquely Tasmanian; we have a lot of everything and we are also very specialised. Therefore Bell Bay has its natural restrictions on growth with the size of the vessels - it has to get around the island near George Town. For that it has to be twin screw; it cannot be too large; it has tidal issues - those sorts of things, but there is certainly a genuine market there. It has tended to have grown into a forest products port, and of course it is still a very important port for Comalco with its own wharf, and TEMCO as well, and general freight. The Maersk Line comes into there weekly now, as we heard. There are very good possibilities in general freight there as well.

Devonport is constrained. It is a small port but fantastic for what it does, particularly with the TT-Line, being right in the centre of the coast. If you are going to land somewhere in Tasmania, that is probably the best place.

**CHAIR** - You get time-sensitive freight.

**Mr HIDDING** - And time-sensitive freight, as you say - that hosts *SeaRoad* as well.

Burnie, while furthest away from the main markets such as Hobart in terms of rail, is not necessarily that far away because overnight is overnight; it is our major port. It is going ahead in leaps and bounds. There is an overall ports project. I am aware that in the past the Productivity Commission and others made recommendations. In fact, you might recall the federal government had bait money on the table. If you were to -

**Ms FORREST** - Fake money, did you say?

**Mr HIDDING** - Bait.

**Ms FORREST** - I thought you said 'fake money'. A lot of that goes around.

**Mr HIDDING** - Is that the right word? Incentive money. If you were to sell or consolidate, that would be a good thing. In Tasmanian terms, really we have essentially one northern port with three campuses, you could say, doing their special thing. You couldn't possibly bring them all together; in fact, you couldn't even bring two of them together. There is a full structured planning process underway for all our ports; I will ask Mr Weedon to address that.

**Mr WEEDON** - Essentially the primary response to your question was a document we released in 2014 which referred to 'TasPorts 2043', and which was a strategic treatment of the primary roles of each port in the network. We tried to articulate that we saw the northern ports as a multi-port platform serving different commodity sectors of the market.

The work for the last 18 months follows from that high-level 30-year plan and is at the locational level. We are doing detailed port master plans for Burnie, Devonport, Bell Bay and Hobart to provide investment certainty about the type of infrastructure investment we are prepared to accommodate and support in each of those locations. That ties into that commodity discussion. We have said very clearly, and it was reiterated through the 2043 plan, that the future for Hobart is

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cruise and Antarctic; that is where we will prioritise our investment and it follows as we go around the state.

**CHAIR** - Is there a weaker chink in the whole system at the moment - any particular port causing TasPorts greater grief than any of the others?

**Mr WEEDON** - No.

**CHAIR** - So you are satisfied with the performance of the four ports, even though they have varied functions?

**Mr WEEDON** - Yes. Everything is going very well. The challenge, which the minister referenced earlier and is a consistent theme through our annual report, has been the level of reinvestment we have had to make in our set maintenance and remediation. We took on this task in 2010-11 to catch up with decades of underinvestment in maintaining the wharves and working assets of those harbours.

**CHAIR** - Which of the major ports requires the most capex spend at this stage?

**Mr WEEDON** - It is uniformly poor across all of them. Each of the ports needs a significant amount of work. We have a structured 10-year plan and into the first five-year cycle we are getting through the work very well.

**Ms FORREST** - Burnie has had most of it done - the Burnie optimisation project.

**Mr WEEDON** - The optimisation project was more about enhancing the rail-port interface and significantly increasing the size of the rail yard. The work I am referring to is maintaining and rebuilding wharf decks, retaining walls, paving, mooring infrastructure, aids to navigation - all the nuts and bolts infrastructure you need to safely move cargo vessels in and out of ports.

**Mr HIDDING** - All of which is very heavy duty and expensive. I am astonished at costs to underpin a section of wharf to make sure it can take the heavy machinery. It is all very expensive work.

**CHAIR** - Minister, regarding the Port of Melbourne, which is a key strategic Australian port, there was talk about significant increases in the port charges. Where are we with that at this stage? What impact does that have on us?

**Mr HIDDING** - Prior to consummation of the deal by the Victorian Government with the purchaser of the Victorian port, there was significant negotiation with the Government particularly on Tasmania's behalf. We engaged with the Premier and Treasurer and received certain undertakings. We were essentially negotiating for our two commercial companies as well to get genuinely long tenures at their port so they could invest. The issue with ports is that if you only have a short tenure, they do not invest much, but with a decent tenure the money goes in and you can invest. We succeeded to a degree. They wanted another 10 years more than they received, but we got much more than was being offered. There were caps on certain rates and arrangements favourable to Tasmania, so we did as well as we could and we were protected by the Victorian Government from any capricious outcomes.

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**CHAIR** - With regard to international freight lines, has there been a tendency to ignore our ports and use Melbourne, causing more transshipping issues?

**Mr HIDDING** - I am going to ask Mr Bradford to speak about this generally because they have been advancing consideration of a international terminal in Burnie with Dubai Ports.

**Mr BRADFORD** - The broader objective of the board is to introduce an international container terminal into northern Tasmania. It would be a modest terminal. We are not trying to compete with Shanghai or the great ports of the world; we are trying to provide an alternative for cargo exporters and importers who want direct access to overseas markets. Mr Weedon is in a commercial-in-confidence negotiation with DP World with a view to how we could establish that. It would be at Burnie and the aim would be to assist the growth of particularly Tasmanian exports.

Yes, the Port of Melbourne is growing under a regulated base. Our charges are modest compared to those current levels. We think an international terminal of appropriate scale would work well for the island.

**Mr HIDDING** - I think some of your question was about calls from international shipping lines. I referred to Maersk's weekly call, but there are others - Swire still calls to Hobart, and Mediterranean Shipping, and these are visits we did not have before and are picking up work.

**Mr VALENTINE** - To Hobart, did you say Mediterranean Shipping?

**Mr WEEDON** - Sorry, no, into Bell Bay.

**Mr HIDDING** - Maersk and Mediterranean is Bell Bay; Swire down here. Other ships come in here, mainly for Ta Ann's products.

**Mr WEEDON** - Nyrstar is a big operator that brings direct international ships.

**Mr VALENTINE** - Antarctic ships come too.

**Mr HIDDING** - We have seen good growth in regular calls from international ships. We have the new federal government TFES repositioning scheme for \$700 a container, international freight to go to Melbourne and access the optionality. There is a fair bit on the table for Tasmanian manufacturers to be able to access and engage with international markets.

**Ms FORREST** - Flowing from the port upgrade and infrastructure around the ports, you talked about the four main ports, but there has also been work done on Strahan and Stanley. I was interested in the work done there, its cost and the return on investment? Are there any plans to upgrade the port on King Island in terms of particularly the hardstand that cannot take a lot of weight? Just on those other smaller ports, if you like?

**Mr WEEDON** - Some years ago we were successful in negotiating a co-funding arrangement with the Government with respect to how we might tackle this tranche of assets we generally refer to as community assets. These are assets mainly there for community use. They do not yield much return to TasPorts in a commercial context, but are an important part of the role we play in working with our communities to make sure they have access to the key wharf areas.

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The Government committed a \$17.5 million contribution towards a \$29.5 million project over five years. That tranche of money has funded the redevelopment of Strahan, which is well underway. We have spent in the order of \$5 million rebuilding the main wharf in Strahan. That has led to follow-on investment in conjunction with the tourism operators there to upgrade and reconfigure the terminal, which we also own.

**Ms FORREST** - I was down there recently and there is a lot going on.

**Mr WEEDON** - It is progressing very positively. The entire spend in the project will be in the order of \$6 million.

**Ms FORREST** - On the Strahan Wharf?

**Mr WEEDON** - At Strahan Wharf, yes.

**Mr HIDDING** - Former mayor Gerrity would have been rapt.

**Ms FORREST** - He would have been. He would have been out there with his angle grinder, looking very excited.

**Mr WEEDON** - We have a similar scope of works around Inspection Head or Beauty Point. The wharf deck and all the electrics that run under the wharf have been ignored for decades. We have a significant upgrade project going on at the moment in the \$4 million to \$6 million category. We are well advanced and completed phase 1 of Sullivans Cove. This is part of the problem with some of the work we do. We spend millions of dollars rebuilding wharf support structures, putting new concrete decks down and it does not look any different to what it did before. The thing we know is that it will not collapse into the sea, which is a good thing.

We have spent something in the order of \$8 million on the phase 1 works. This is the rebuild of the section of wharf between Brooke Street Pier through to Elizabeth Street Pier. The next tranche of works is to extend that wharf rebuild all the way through from Constitution Dock Bridge to Victoria Dock Bridge. That will rollout over the next couple of years.

We have invested significantly in those non-commercial assets or community assets. Internally we tend to use the phrase 'non-commercial' because we get very little cash flow from a TasPorts perspective from those assets.

**Ms FORREST** - We still have to get to Stanley and King Island.

**Mr HIDDING** - Sorry, on the non-commercial. The reason you would spend money on these places is that they are things other than ports. On the waterfront down here, you would have to close it to motor vehicles as well and that is an important part of how this port lives. Strahan as well.

The funding model set up for TasPorts by the previous government was a very good thing to do. TasPorts has to act commercially and it has a separate business, funded separately, where it does not act commercially.

**Ms FORREST** - It is nice of you not to play politics and commend the former government on what they did. Thank you for doing that because it has not been happening the rest of the day.

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**CHAIR** - Okay, we are through that.

**Mr WEEDON** - Turning to King Island. In its current form, King Island is fit for purpose for the vessels that call and the cargos that operate there. In the way I referenced port master plans unfolding, we are doing that same suite of work for Grassy Harbour. That will come to the board for consideration in the first quarter of next year.

**Mr HIDDING** - What sort of money would that be, Paul?

**Mr WEEDON** - We do not know yet.

**Mr HIDDING** - There is the hardstand issue you are talking about.

**Ms FORREST** - It is not adequate to take a crane. They are not using a crane at the moment because it roll-on, roll-off, but for future use.

**Mr WEEDON** - It is a fairly academic discussion at the moment.

**Ms FORREST** - In many respects, yes.

**Mr WEEDON** - It is fit for purpose for the operations that work there today. If there were evidential demand that we needed to invest in upgrades to create that style of infrastructure, we would take it on a commercial basis at that time.

At Stanley we invested money some years ago in upgrading the ramp structure, specifically to facilitate livestock in trailers through that port. One operator uses that port. Our own Bass Island line has used it in the interim phase when we have had *Investigator* on the run. It is not our intention to maintain that arrangement.

We have real reservations, and we have said it repeatedly, about trying to turn Stanley into something it cannot be. It is a very small port. The available land for terminal operations is very challenging. It is hard up against The Knob -

**Ms FORREST** - The Nut.

**Mr WEEDON** - The Nut, I am sorry. There is not a lot of reclaim opportunities -

*Laughter.*

**Mr HIDDING** - The local member is not happy.

**Mr WEEDON** - My apologies. It is a very challenging location to try to turn it into something it is not, nor do we believe there is the community interest in seeing more commercial transport and shipping call into that port.

**Ms FORREST** - There was a plan for a cruise ship to anchor off and ferry the passengers in. That did not happen but I understand there is a plan to bring a number of cruise ships into Stanley over the next year or so.

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**Mr WEEDON** - Not into the port, though.

**Ms FORREST** - No, they will ferry them in smaller boats off the main ship. Is that going to create any additional challenges for TasPorts?

**Mr WEEDON** - Not in the short term. When they start to ask for specific cruise infrastructure there will be a problem. If they want to park up in the bay, drop the anchor and run Zodiacs ashore, as long as we can do that safely, we are happy to facilitate that happening.

**Ms FORREST** - Do you believe you can do it safely with the current infrastructure?

**Mr WEEDON** - Yes, with Zodiacs.

**Mr BRADFORD** - It is quite a normal cruise shipping operation. The cruise lines, themselves, will also take a heavy investigation into the safety of landing passengers and craft at that point.

**Mr ARMSTRONG** - Minister, can you give me an update on where the southern woodchip situation is at? Has anything happened? I know the private one at Raminea is on the books, but what about TasPorts? We have the log facility out here.

**Mr HIDDING** - I am not the minister for forests so I don't know anything about the commercial one that is being proposed right down south. That is, as I understand, TasPorts and no-one has reached out to talk about that. That is a commercial operation. From what I am aware of, the log operation here at the Hobart port, which was a joint venture with Qube, is planned to be a five- or six-year operation to catch up with the backlog of log exports.

I will ask Mr Weedon to address what is going on.

**Mr ARMSTRONG** - I am interested in the residue, the woodchips, a facility in the south of the state for woodchip export.

**Mr HIDDING** - Certainly not at a government level. I am not the minister for forests, but I understand there is ongoing interest from the private sector for woodchip residues from private forests. That is not a matter I am involved as a minister, or TasPorts is involved in.

Other than that, there is still a substantial shift of logs to the north of the state via rail, which goes to Bell Bay. The rail goes right to Bell Bay, so that is a useful part of our business.

**Mr ARMSTRONG** - SET has not had any discussions with you about a wood fibre facility in the south of the state?

**Mr HIDDING** - No.

**Mr WEEDON** - No, not in recent times. Years ago there were joint studies done with then Forestry Tasmania and TasPorts. Every option that we could possibly identify wouldn't stand any commercial scrutiny.

**Ms FORREST** - I would like to follow up on that point, Chair. With regard to Southern Export Terminals, there is not a lot of detail in your annual report about it. I know it is a small part of the rough ocean. On page 83 of your annual report, if you want to go there -



## UNCORRECTED PROOF ISSUE

TasPorts received \$208 000 income from SET.

On page 90 it talks about -

Total expenses for SET were \$517 000.

Does this include the \$208 000 paid to TasPorts? Who do the other expenses go to?

**Mr WEEDON** - Geoff, you probably have some detail on the numbers but if I can introduce it by explaining the commercial model that exists.

**Ms FORREST** - That would be helpful.

**Mr WEEDON** - Southern Export Terminals was set up as a contracting entity to engage with the southern forestry sector with respect to the export of logs either loose or in containers. It works on a pass-through basis for charges, so if there is a log-packing operation going on, one of the partners provides that service and invoices the customer through SET, but the costs remain in the service provider.

The only thing TasPorts charges Southern Export Terminals for is the land it rents to conduct its operations. Does that make sense?

**Ms FORREST** - Yes. You said it was only a five-year arrangement.

**Mr BRADFORD** - A five-year joint venture arrangement for the export of logs. TasPorts participates as an equal partner in that joint venture. The thinking of board and management is, in a number of things we do, that we could benefit from the expertise of others and for the actual log handling, we thought Qube-ISO offered a far better solution than anything we could provide so it is a joint venture.

**Ms FORREST** - But TasPorts are still losing money on it.

**Mr BRADFORD** - It is embryonic. Yes, we lost money in the year to date, but of course we gained the revenue from vessels calling at that berth using pilots and tugs.

**Ms FORREST** - You consider that revenue; are you still making a loss on it, though?

**Mr WEEDON** - No. At the enterprise level it is plus-minus break-even.

**Ms FORREST** - The SET council is not audited by our Auditor-General?

**Mr HIDDING** - No.

**Ms FORREST** - Are we able to see the accounts for that entity? It would be nice to put it on the table now.

**Mr HIDDING** - It would be a matter for Qube. We could ask for that, Qube being a commercial partner.

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - You might take it on notice if that is all right.

**Mr BRADFORD** - We were not surprised by the fact that in the first year it was loss-making because it was embryonic, a new business - you have to start it up, get it running and grow the market. It was a known risk.

**Ms FORREST** - Is there growth in the market though, do you think?

**Mr BRADFORD** - The growth of the market, yes, it is growing the logs and bringing all the log exporters from the southern region to SET.

**Ms FORREST** - Rather than freighting it by train up to Bell Bay, you are taking it all out through the southern port?

**Mr BRADFORD** - Correct; for the five-year period we have contracted to.

**Ms FORREST** - Minister, is that a realistic option from your point of view - to not transport the logs by rail up to Bell Bay but to ship them out through this port and give it a fighting chance?

**Mr HIDDING** - The reason so many logs are going out through here is that it is commercial. If they had to go up north, they likely wouldn't because it is marginal business, double handling. The other major thing with logs is that they are seriously dangerous, being round and heavy. They kill people. Qube has expertise in that in New Zealand and elsewhere. I am astonished at how good that operation is - completely safe and very quiet. The logs come in in non-peak periods; it is a very successful small terminal set up for a very special purpose.

**Mr WEEDON** - You also have to understand the nature of the logs being handled through there. Typically, if they are pulp logs, they are more likely to be chipped and exported in that form, they are more likely to go north. But given this is all plantation timber, a large part of the volume of logs that are going across the wharf in Hobart are sawlog-quality logs.

**Mr HIDDING** - And peelers.

**Mr WEEDON** - And peelers. There is a variety of markets and the supply chains for the different sectors kind of have different economics and operate in somewhat different ways.

**Mr BRADFORD** - The market has responded very well to the time-based curfews on road access to that terminal. We are quite pleased.

**Mr FARRELL** - Referring to your annual report, page 35, TasPorts' capital expenditure target was \$26.8 million, but the spend was only \$13.2 million. Can you explain to me please why there is such a difference there?

**Mr DUGGAN** - It was primarily around the timing of a fleet replacement. A fleet was budgeted to be acquired in the 2017 financial year that subsequently has been acquired this financial year. That was the main driver.

**Mr HIDDING** - As vessels become available.

## UNCORRECTED PROOF ISSUE

**Mr FARRELL** - What were the projects deferred until 2018 or after, and why were they deferred?

**Mr DUGGAN** - It was primarily around availability. It was around marine fleet and pilots, and the acquisition of the second tug was deferred. Some major infrastructure projects were also forecast to commence during the 2017 financial year that have now commenced in the 2018 financial year. It was still a fairly significant spend in that financial year. The actual number was around \$16 million to 17 million. That was a mixture of some fleet that we did replace during that year but also infrastructure projects. There was the dolphin at Burnie to accommodate the larger cruise ships as well. There was quite a good spread of projects around the state.

**Mr BRADFORD** - I think the Selfs Point fire upgrade went into the new year as we looked at new technology. The fleet replacement program: the board and management have a desire to upgrade floating plant. In the case of pilot boats, we want state-of-the-art vessels purpose-built for the island and the nature of Bass Strait and the Derwent. We have two of those vessels and the third is on its way. In towage, we wish to upgrade the towage fleet, but you have to be a bit opportunistic as to when quality tugs come on the market as second hand which would suit the Tasmanian market. It has been a good year. BHP in Port Hedland wished to sell a fleet of tugs; we bought one and then they offered us the second one, which we think is a fantastic deal.

**Mr FARRELL** - Where are the pilot boats built?

**Mr BRADFORD** - They are built in Mornington in Victoria, which is a world-class facility. State-of-the-art pilot boats are self-righting, with infrared lighting and the greatest protection to the pilots and the crew that sail in them.

**Mr FARRELL** - And that is something that can't be built locally?

**Mr HIDDING** - I asked the question about that because we have boat-building capacity here but I had never understood that these pilot vessels are so specialised - with special flotation and the like. Asking around in the industry here there was no particular interest at all in building one of those because it is a special class of vessel.

**Mr WEEDON** - This is a well-proven design developed in France about 15 to 18 years ago. A single provider in Australia is licensed to build their design and that is the company we deal with. We are very happy with them.

**Mr BRADFORD** - The Burnie pilot boat was a little fortuitous in that a vacancy came up through a cancellation at the Mornington shipyard so we took it. We try to be opportunistic and watch the capital spend, but you have to balance it.

**Mr FARRELL** - And that is the reason with the tugs, sometimes something might come on the market.

**Mr WEEDON** - We will budget to buy two and you might be able to buy four or buy none. We do get some variation on a time scale because of that. We make assumptions about the availability of either a new or second-hand fleet and you have to be nimble around that.

**Ms FORREST** - Most of your capex relates to vessels rather than port infrastructure?

## UNCORRECTED PROOF ISSUE

**Mr WEEDON** - A lot of that work is not capital in nature; it's about maintenance and renewal.

**Mr BRADFORD** - I think a few projects might have run into the new year - Selfs Point and maybe Strahan.

**Mr DUGGAN** - Yes, Strahan was delayed post-30 June, so it will be picked up in this year's capex.

**Mr FARRELL** - On page 43 of your annual report are the maintenance budgets over the last 10 years. It seems in 2017 it dropped down to \$16 million, where it had been \$23 million and \$26 million the previous years. Prior to that it had been around \$10 million. Is there a reason for that?

**Mr WEEDON** - That is the catch-up I was referring to earlier. Historically, either as TasPorts or the individual companies, none of them had spent enough so we ramped it up over those periods and were spending in excess of \$20 million. The challenge we are working on at the moment is what the base level of spend is we need to get through in a normal year. We are working hard to land those numbers at the moment.

**Mr FARRELL** - What does that look like being? Is it between \$10 million and \$20 million a year?

**Mr WEEDON** - Probably \$10 million to \$15 million. We hope it is not \$20 million because it is tough to find the money year on year to meet that level of commitment to asset maintenance and remediation.

**Mr VALENTINE** - How do you manage your assets for replacement and maintenance? Do you use a particular method model to do that or is it 'just in time' stuff? Can you explain a bit about that?

**Mr WEEDON** - It is a pretty simple process in that, on a routine and annualised basis, we have a comprehensive asset condition assessment process. That is informed by work we believe needs to be done, plus being responsive to particular issues we discover. The combination of those two pieces of work is then fed into a system which leads to a prioritisation process, which in turn then informs the budget.

**Mr VALENTINE** - So you don't recalculate life - you might have concrete pylons as an asset type - I don't know whether you do or not.

**Mr WEEDON** - Yes, we do.

**Mr VALENTINE** - The general lifespan of that might be 25, 30 years or 40 years.

**Mr WEEDON** - It is 100 years.

**Mr VALENTINE** - One hundred years. You know over time you find concrete cancer or something in some, and is causing premature failure, you then feed that into your system and then re-age all assets as a result of that failure? Do you do that?

## UNCORRECTED PROOF ISSUE

**Mr WEEDON** - Yes. We have a dynamic process around exactly that. In terms of the dynamic parts, we looked in our work program at a holistic review of the ladders around the various ports and everything from age to navigation, lighthouses and the like. We found ourselves seeing more failures in that infrastructure than we thought we should have. That led to the acceleration of a statewide ladder review and rebuild program, which has now informed a three-year budget program as to how it bring forward and get into that works.

**Mr VALENTINE** - Yes, exactly.

**Mr WEEDON** - The same thing happens in all asset classes.

**Mr VALENTINE** - What is the general status of your assets? Are you on par, doing okay or are you behind the eight ball?

**Mr WEEDON** - Given the level of investment we have made in recent years, we have caught up a long way. We still have a long way to go.

**Mr VALENTINE** - Years ago when the sale of Elizabeth Pier was being contemplated, people were saying, 'It is all very well to buy the pier, but the pylons under it are in terrible condition.' What is the situation with the pylons under the major piers like Princess 1, Princess 2, Elizabeth Pier -

**Mr WEEDON** - It is hard to answer that question in a generalised way.

**Mr VALENTINE** - Is there a lot of work to be done?

**Mr WEEDON** - There is a lot of work to be done. Just to mark the spot, Elizabeth Street pier is not ours.

**Mr VALENTINE** - No, it is not.

**Mr WEEDON** - It is a state Government asset.

**Mr VALENTINE** - That is a purchased item. The other question was with regard to tugs. There used to be a private company that provided those services. Is that not the case now, with TasPorts owning the majority of tugs needed for the business in the ports?

**Mr WEEDON** - Yes, TasPorts acquired North Western Shipping and Towage Company in 2008 and has run it as a business unit within TasPorts since that time. There are other tugs in the market. We have recently seen interest from a Western Australian company that has secured a contract for the provision of towage services in north-west Tasmania. It is a competitive market.

**Mr VALENTINE** - The tugs down south used to be Smarts; they are no longer in business. That is all provided by TasPorts?

**Mr WEEDON** - Certainly the Fader interests have tugs in Hobart, small capacity tugs.

**Mr BRADFORD** - Pilots and towage are seen as core business. The fleet should reflect that. Its level of maintenance should reflect its high need for reliability and, above all, the protection of

## UNCORRECTED PROOF ISSUE

the marine assets visiting Tasmania. They exist to protect the ships, the wharves and the community, so they should be of a high standard. That is why we are replacing the tugs.

**Mr VALENTINE** - Do you control Selfs Point wharfage facilities as well as the main Port of Hobart? What about some of the other smaller ports? Would they be MAST; maybe St Helens, Bicheno, Dunalley - those would be presumably under MAST?

**Mr WEEDON** - They are, yes. Certainly within Hobart our assets and our business includes primarily Selfs Point and the Macquarie Point wharfs. Nyrstar own their own berth, but we provide marine services for the safe navigation of vessels to and from their berth. We provide the tugs and pilot edge. What happens at their berth and wharf is their business.

**Mr VALENTINE** - Margate would be a MAST?

**Mr WEEDON** - That is MAST.

**Mr HIDDING** - The only other asset in the south was the Triabunna Wharf, which was sold to private interests. Other than that, TasPorts has nothing else.

**Mr WEEDON** - You have to understand the description of ports is often shaped around the description of port waters. We have a zone described by the water which we are responsible for, for managing ships coming in and out of our waters. Often we will own land and sometimes it is large amount and sometimes it is small amounts of land within the boundaries of those port waters. You get hybrid solutions like Hobart where we own some assets and some land along river bank, as we have described. Nyrstar owns some and the rest is owned by others and has nothing to do with us or our activities.

**Mr VALENTINE** - The slipways on the Domain, are they yours?

**Mr WEEDON** - They are ours.

**Mr VALENTINE** - You were talking about earlier time-based port access to Hobart, what is the time arrangement and the period of years it is likely to operate under that model?

**Mr WEEDON** - Let me preface my comments by saying that these are good problems to have, that we have to start to get to a window or a timeslot arrangement in terms of how our customers use the berths. You usually only go to that arrangement when there is high demand for the wharf. The likely arrangement in Hobart will be we will introduce time windows for the cruise sector. The rest of the commodities, whether logs, veneer, the Antarctic vessel is less likely to be an issue in the short term.

We are looking at the same thing in Burnie because our investments in the woodchip export facility we acquired from the Gunns' receivers, has opened up the export opportunities for woodchips and residues for the north-west of the state. That has led to a significant increase in volume through the Port of Burnie; there is more demand for ships to use the wharf. We have now started to work with our customers about entering into an arrangement where they will book on a time slot basis. They will know they can have that berth from 0700 for three days and will need to book, lock it in and pay for that use and then have to manage their ships to make sure they are in the window, loaded and gone within the range.

## UNCORRECTED PROOF ISSUE

Mr VALENTINE - What is the time window for access for log trucks at the moment?

Ms FORREST - In Burnie?

Mr VALENTINE - No, in Hobart.

Mr WEEDON - We have agreed with the industry they will not call at our southern export terminals during the morning and afternoon peaks. This is for trucks.

Mr VALENTINE - I realise that, and is why I am asking the question.

Mr WEEDON - It has gone impeccably well. We were very concerned. We worked really hard with the industry to make sure they were on board with this initiative and they have done so. The level of community complaints or concern about the log trucks on the road has been negligible.

Mr VALENTINE - With the Antarctic vessels and research vessels, CSIRO and *L'Astrolabe* and whatever the new vessel is for Antarctic research, are they remaining on Princes Wharf or going to be moved elsewhere?

Mr WEEDON - The Australian Antarctic Division, the *Aurora Australis*, is at Macquarie Point. We are looking at the potential as to how we best utilise Macquarie Wharves for the new icebreaker the federal government has commissioned. Whether we keep that at Macquarie 2, as it currently is today or whether we move it elsewhere in the port, is subject to a current project we are working jointly on with the Antarctic Division.

Mr HIDDING - How much bigger is that icebreaker?

Mr WEEDON - Nearly double the size.

Mr VALENTINE - It is to do with the depth of water?

Mr WEEDON - It is more length. We have plenty of depth alongside at Macquarie Wharf.

Mr VALENTINE - One positive came out of the previous location was that tourists saw this and it is not plastic, it is real and not a super yacht - it is doing some work.

Mr WEEDON - Our future planning and the master planning work we are doing around Hobart provides for the possibility that we might be able to encourage CSIRO to move its ship and logistic operations over to Macquarie.

Mr VALENTINE - So you get it all in one spot.

Mr WEEDON - We get some scale, we get multi-users. If another foreign nation were to use Hobart as its Antarctic logistics base, we then have a scale of operation we can bring them in, we can provide the services they are looking for.

Mr HIDDING - You can fuel them.

Mr WEEDON - You can do all those things.

## UNCORRECTED PROOF ISSUE

**Mr HIDDING** - Very good fit with Macquarie Point.

**Mr FARRELL** - Are the vessel transport supervisors being moved from Bell Bay to Launceston. If so is there a reason behind that?

**Mr WEEDON** - Yes. Our plan has been to establish Launceston as the major operational base for the state. In terms of staff, staff movements, proximity to where our commercial customers are, Launceston is the place to be. As part of that work we landed on the concept of creating a single 24/7 operation centre. Whether it's a port or a railway, it tends to be the way you like to operate. We have an ambition to bring both the port security team, which is currently in Hobart, to Launceston and bring the vessel traffic management operators from Bell Bay down to Launceston, to put everybody in that same operational centre.

**Mr FARRELL** - You feel that will make some operational savings? Is it going to consolidate your workforce a little?

**Mr WEEDON** - It's twofold. Both the port security system and the vessel traffic management system are nearing end of life. We have significant technology upgrades to implement and we've had board support for those projects. It makes sense to co-host those in a single facility if we can. At the same time we'll work with staff and the unions to optimise labour productivity when having everybody in the same place.

**Mr GAFFNEY** - I am going to ask some questions regarding the number of offices you have across the state. I am not parochial about the fact Devonport was named the headquarters in 2006. Obviously the game has changed. I was wondering what it costs to maintain each of those offices and how many part-time and full-time staff you have in those offices. Until 2012-13 the correspondence from the Auditor-General went to a post office box in Devonport and in 2013-14 there was no post office box. Administratively, is there a change of where TasPorts is operated from? I know the registered office is in Devonport, but it used to be referred to as the headquarters. If TasPorts is maintaining a space with a couple of people and a janitor in it and calling it the headquarters, maybe it is time to say, 'We don't need that size office because it's not the headquarters any more, it is an office'. I would be interested in a question about full-time and part-time staff in each of the offices and what is the intention of the Devonport registered office?

**Mr WEEDON** - I think I will have to take the head count allocation on a per office basis on notice and get back to you on that. As you go around the state, our office footprint in Burnie, for example, has been downsized significantly in the last four or five years. We just have maintenance and port operative staff working in workshops in that area. We have virtually no administrative staff in Burnie. That was part of building a north-west regional office based around the Devonport Formby Road facility. We have administration, engineering and infrastructure people in that facility. We also have workshops along the water's edge, mainly on the west side of the Mersey where our maintenance, carpenters and electricians are doing their work.

It is similar at Bell Bay. We have downsized our activities at Bell Bay to mainly operational and maintenance teams. Launceston is growing in importance as the statewide operational centre for the business. Without pre-empting a process that we will need to run by the board and with the shareholders, we will need to confront the issue of where both the registered head office and the headquarters of the business will be. Without pre-empting the decisions that might happen in those forums, it is certainly my view that Launceston will continue to emerge as the logical headquarters location for the business.



## UNCORRECTED PROOF ISSUE

**Mr GAFFNEY** - Would it be too much trouble then, Paul, to have the numbers of staff in those offices in 2006-07, when it first came into being, the cost to the state and the numbers that are there now so that people can see there has been a change.

**Mr WEEDON** - Yes. What the transition has been.

**Mr GAFFNEY** - Because of the nature of the way we do business now, where it is all swings and roundabouts, I think it is important to have that discussion about it.

**Mr WEEDON** - Yes. The major capability we need is on the ground. It is our port operations people who are working with our customers to make sure ships come in and out of ports safely and the cargo goes on and off the ships effectively. Pilots, the guys that drive the pilot cutter boats, the tug crews, the wharf operational people, the maintenance guys who are doing repairs need to be in the ports. We have focused on making sure that that is maintained but rationalising administration staff, rationalising management, consolidating those into fewer centres has been a theme over the last couple of years.

**Mr GAFFNEY** - Thank you for that. An issue on notice, if Hobart had five in their office in 2006 and they now have 20, there may be further questions.

**Mr WEEDON** - Sure.

**Ms FORREST** - I want to ask some things about the King Island service. It would be no surprise to anybody but I want to follow up on the lease of the property.

Page 82 of the annual report sets out the lease commitments as a lessor. These are the amounts received from leases, about \$8 million in the next year. On page 62 it ends up in trade revenues of rent and operating leases. On page 18, the commentary refers to income from property of 280 tenancies. Is this trade revenue? If it were included separately, we would see income from core activities like port fees and so on, and income from property. They appear to be all lumped together. Why is that? It makes it a bit hard to see what is coming in from port fees as opposed to leases on buildings.

**Mr DUGGAN** - If you look on page 62 under Revenues, it has a breakdown of the revenue streams between various streams - port activities, the airport, for example, property transactions. We do have a large property portfolio around the state and that generates non-cyclical revenue streams for us. It has been important in prior years when we had a downturn in freight activities. It is a part of the business we are attempting to grow and making sure that we are getting proper tenants.

**Ms FORREST** - I did see that and I note there is \$7.37 million in rent and operating leases. Is that all property?

**Mr DUGGAN** - Property and buildings, parking.

**Mr BRADFORD** - You would expect a port corporation would be a significant landlord, renting buildings, warehouses and vacant land, parking spaces.

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - On page 18 reference is made to Macquarie 1 on TasPorts land. Does TasPorts get a return on that?

**Mr BRADFORD** - Yes.

**Ms FORREST** - It says the former goods shed is now a stunning hotel, which I think most of us know. What does TasPorts still own here? Does it own the land, the building or a share or did it sell the building and retain the land?

**Mr BRADFORD** - It owns the land and rents the land to the owner of the hotel.

**Ms FORREST** - Okay, are there other arrangements around the state like that or is it unique?

**Mr BRADFORD** - As a hotel? The concept of renting out land and other people building on it is not unusual. I will let Geoff give a specific answer.

**Mr DUGGAN** - Our rental streams vary. It can be vacant land within the port precinct, it could be vacant land outside the port precinct that is used for storage for logs and so forth.

**Ms FORREST** - So the income from that is all picked up in that one line of leases?

**Mr DUGGAN** - It's all encompassed within that \$7.3 million. Within the port zone and outside the port zone we have buildings as well which attract rentals. We still have cold store assets in the north-west of the state that derive rental returns. We have property at Devonport Airport which we have tenants in as well, so it is both within the port precinct and outside the port precinct, either land or a combination of land and buildings.

**Mr HIDDING** - And not necessarily on land. There are facilities on wharves, such as inspection, tourism facilities and restaurants on wharves here in Hobart.

**Ms FORREST** - So it is quite a lucrative aspect?

**Mr HIDDING** - Yes.

**Mr DUGGAN** - The other stream is car parking on the Hobart waterfront.

**Mr VALENTINE** - What percentage is that?

**Mr DUGGAN** - Of the \$7 million, roughly 10 per cent.

**Mr HIDDING** - Not as much as the Hobart City Council makes out of parking.

**Mr BRADFORD** - You could expect the rental and that line to grow as the years go on. The role of ports is like an airport, as a landlord.

**Ms FORREST** - Devonport is one of your airports.

**Mr BRADFORD** - Yes, a very successful airport and we are very proud of it.

**Ms FORREST** - You don't report that separately in the segment reporting, though?

## UNCORRECTED PROOF ISSUE

**Mr BRADFORD** - No, it doesn't fit the classification of a segment for what we need to report as a segment. We don't treat different activities as different segments for reporting purposes.

**Ms FORREST** - Don't the accounting standards require that you do?

**Mr BRADFORD** - There are materiality concepts around what is a segment and so forth, so we don't satisfy those.

**Ms FORREST** - I want to go to the King Island shipping arrangements. I note when we considered and noted the report, it was announced Greenham's was buying one of Les Dick's vessels - it probably needs a bit of work to become operational and back in survey, I reckon. I believe the intent was to ship cattle from King Island to Victoria because they have a fairly significant abattoir there, as well as to Stanley and then on to Smithton to the Greenham's facility in Smithton. Does this pose risks to TasPorts in loss of revenues through Bass Island Line? I know this service already does the majority of Greenham's cattle shipping, but if we suddenly see a lot of cattle going off to Victoria to slaughter, which I would see as a considerable risk, what does that mean for TasPorts and Bass Island Line more particularly?

**Mr WEEDON** - I think it is too early to reach a conclusion on that. We know what their plan is with respect to the deployment of that vessel, but what it results in for Greenham's level of share in what they are buying at the farm gate and how that impacts on the volume of livestock coming to Tasmania for processing, we don't understand that yet.

**Ms FORREST** - It is possibly a question for the employment in Tasmania, which is not a matter for TasPorts but it is certainly a risk.

**Mr HIDDING** - I have expressed concern about that in the past. Both of our abattoirs in Tasmania are underinvested in by their owners and it is a completely unsustainable thought that we would be without abattoirs. There is huge employment in the processing of high quality beef. However, Greenham's is essentially a Victorian company and it has bought another abattoir in Moe now, a large one, and now with the purchase of this ship, it is declaring its intentions. It would not be sharing that with TasPorts, other than if they were asking - TasPorts has two hats - we have asked them to put on a shipper's hat for a year or two with this subsidiary, but primarily TasPorts is a ports company and may well have to deal with Eastern Shipping Line with its port hat on.

**Mr WEEDON** - We are making inquiries of Eastern Shipping Line as to its intentions, where they want to work the vessel within Tasmanian ports' assets. We will have to do a lot of work in terms of the safe operation of that vessel within our ports, and we will have to do an infrastructure review to make sure we have infrastructure or can develop the infrastructure it needs to support its operation.

**Ms FORREST** - Do you know much about the particular vessel coming into King Island at the Grassy Port?

**Mr WEEDON** - Not yet, no. We understand the vessel reasonably well but what we might understand of the vessel is based on what it is, and that is a completely different understanding of how an operator might chose to use it. At the moment we are working with Eastern Line to try to secure an understanding of its intentions.

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - To clarify, the new vessel coming online next year is for an expected two-year period, minister, and how much did it cost?

**Mr HIDDING** - Sorry, expected two-year?

**Ms FORREST** - Two years of operation. That is what the committee was initially told, that it would be an interim solution for another two years.

**Mr HIDDING** - I think we indicated we would expect the Bass Island Line to be seeking to dispose of its assets to the commercial sector. We would by far prefer a commercial operator on Bass Strait and the vessel is an asset of the Bass Island Line.

We will be engaging with the King Island people in this conversation that we have committed to about what the ideal ship looks like. There is a report done by Thompson Clarke Shipping that I am looking at now.

**Ms FORREST** - A new report or the previous one are you talking about? ○

**Mr HIDDING** - This is the one they have been working on for 12 months or so. We will provide that to the King Island community, to have that separate discussion about what is the ideal thing. They know what the *SeaRoad* vessel was like, they certainly know what the *Investigator* was like and what the limitations are of this new vessel. They will be able to see that in operation and then have this broader discussion about what the ideal vessel looks like.

As the Government, we are not opposed at all to having that conversation with them for what a long-term - 10-year or 15-year - solution looks like for King Island. I am happy to have that conversation.

We should see this new vessel in January. You might want to inform the committee that I read somewhere that when it arrives, it is going up the ship lift in Launceston to do its final changes for the local market, then it will go into service.

**Mr WEEDON** - Exactly. ○

**Ms FORREST** - I am interested in the cost of it. Are you going to be able to sell the *Investigator*?

**Mr HIDDING** - The *Investigator* is not ours; that is leased.

**Ms FORREST** - That is leased. How much will the new vessel cost?

**Mr HIDDING** - That simply goes back to its owner and we understand that it is sold - or it was - but, either way, that goes back to its owner in the first quarter of the year when there is an overlap to allow the new ship in. We would like the new ship on the market in time for the fertiliser period; it is of a size where it will handle that task.

**Ms FORREST** - How much did it cost?

**Mr HIDDING** - The vessel?

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - Yes.

**Mr HIDDING** - Sorry, I thought it was out there already. I thought we had indicated it was \$10 million.

**Ms FORREST** - And you would expect to sell that at the end of the Bass Island Line, either to a commercial operator who takes it over or somewhere else?

**Mr HIDDING** - Yes, being an almost brand-new commercial vessel of that size, it is a highly desirable kind of vessel for the entire Asian market. There would be some loss, just like with a new vehicle, you always take a bit of a hit, but Mr Weedon has had a very close look at that and he can speak on that.

**Mr WEEDON** - I am very pleased with the purchase price that we were able to secure this vessel for. There is a real slowdown in the Asian market, particularly in the oil and gas sector, and these vessels have typically served offshore oil rigs, operating as supply and support vessels to that sector.

Our analysis through the broker indicates that if we had been in the market three years ago, we would have paid at least 50 per cent more for this vessel than we have had to because we have been able to exploit the current market.

**Ms FORREST** - It was on special.

**Mr WEEDON** - Shipyards, and particularly shipyards in Asia, will build these things on speculative grounds.

They know they can always sell a certain number of them, usually into the oil and gas sector in the local south-east Asian market. In this case, this one was about 70 per cent built. The market collapsed, so they went to other markets looking for a home for the vessel. It worked to our advantage that we were able to pick it up.

**Ms FORREST** - That was not possible a year ago, then?

**Mr WEEDON** - We could have maybe bought one, but we would have paid a hell of a lot more. The advantage of the vessel being roughly 70 per cent complete was that we were able to work with the yard to build in additional specifications for the use of the vessel as an Australian cargo vessel. We have a team working now on how to balance what works we get done in the yard in Malaysia without delaying the delivery of the ship to Australia.

**Mr HIDDING** - We cannot give them one excuse to delay one day. There will be some work done here.

**Mr WEEDON** - They have done a fabulous job at making sure they can deliver the vessel according to our timetable. What that means is there are supplementary modification works we will have done in Australia. Our preference is to make sure we have it here so we can do whatever we need to do locally. We have reserved positions with the service providers to make sure that when the vessel arrives, we are good to go, and the work we will commission locally can be done.

## UNCORRECTED PROOF ISSUE

Some work might be work we do before the vessel goes in to service initially. Some of it is work we can do over time. For example, the standard specification on operational lighting, external lighting on the vessel - if you want to work the ship at night, the vessel comes with a standard specification of that.

Given the climatic conditions in Tasmania and on King Island, night working and those things, it is our intention to upgrade the lighting arrangements over time. Do we need that in February? No. Do we need it before the ship leaves the yard? No. Will we do it in April or May or June? Absolutely.

**Ms FORREST** - Before winter when the days are shorter.

**Mr WEEDON** - Exactly.

**Mr BRADFORD** - The broadest strategy is selecting the vessel. Many people have commented on the nature of the vessel, but it must be capable of visiting Melbourne from King Island. It must be capable of most weather conditions in the Bass Strait, and, importantly, the ramp must have the weight capacity to handle a forklift and a fully loaded container. We do not wish to use a crane to unload the vessel.

**Ms FORREST** - A fully loaded cattle truck?

**Mr BRADFORD** - That is right, and the heavier containers. With that comes a far different financial proposition than the *Investigator*, as we would have expected.

**Ms FORREST** - We know Bass Line is operating at a significant loss. That was of no surprise to anybody. What do you expect to be the ongoing loss?

**Mr BRADFORD** - It is expected when the new vessel is up and running and has a full year of operation, we would expect the result to broadly be either plus or minus \$250 000 a year. We think at that level of financial performance, we hope it is on the plus, not the negative. We think the private sector will then show some interest and then add further expertise, particularly in land-based logistics.

**Ms FORREST** - That is using current freight costs and charges?

**Mr BRADFORD** - Yes.

**Ms FORREST** - We know King Island freight costs are higher than just about anywhere else. The Government has said it is not going to review that, according to the Leader's speech in our House. The committee could not get to the bottom of why there is such a significant difference in freight costs to King Island as opposed to Flinders Island for fertiliser or other regional communities.

The freight costs are high compared to other places. It is still a disadvantage for King Islanders even though currently Bass Line is losing quite a bit of money; they will continue to lose money and then perhaps get to a break, even maybe a small positive position. The King Islanders are still paying more than anybody else in freight. Is there any room here to see that change?

**Mr HIDDING** - Are you asking for a reduction in freight costs?

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - It would be good to understand why they are so much higher on King Island than anywhere else to start with, because then you can look at where the freight costs actually are higher. There are many components of the whole overall cost. It was impossible to figure out where those real challenges are. Is it a TasPorts area that we could see a reduction in cost? Or is it on-and logistics or what is it?

**Mr HIDDING** - In terms of reduction in costs that translates directly to an increase loss.

**Ms FORREST** - I understand that.

**Mr HIDDING** - We have asked TasPorts to maintain the current market conditions as when they arrived. To a greater or lesser degree they have done that. I am interested in this proposition of the perception Flinders Island is cheaper. That would be a separate study to be done and I am interested in that. From what I know of Flinders Island, I had a close encounter with long after I became minister when the operator threatened to walk away. They are not very far from the Bridport Port and they operate a vessel into Bridport River on the tide, so they load late in the middle of the night and offload in the middle of the night at the other end. I am not sure why it ought to be much cheaper.

**Ms FORREST** - But it is.

**Mr HIDDING** - As I understand it is. It could be that operator has a lower cost base. Essentially he built a private wharf there. It may well be a lower cost base.

**Ms FORREST** - Even the freight of cattle is significantly different. If you go back to our report and look at the actual tables they clearly lay that out for you.

**Mr HIDDING** - There is a discrepancy and I am not sure why. I am interested.

**Ms FORREST** - I am pleased to hear that, because that is not what the Leader said.

**Mr HIDDING** - In terms of providing an answer to a market situation we have no sense or control over, we were not able to do that in a short period of time. In a policy sense I am interested. I am happy to explore further.

**Mr VALENTINE** - A quick question on bunkering fuels in Hobart. I do not know how much you have to do with that. There has been concerns over ships that come in and use heavy bunker fuel and the level of pollution caused as a result. Do you have any control over visiting ships and if so, what is the status at the moment?

**Mr WEEDON** - To my knowledge, and I might have to double check this, none of the fuel suppliers are providing heavy bunker fuels in the Tasmanian market.

**Mr VALENTINE** - No, it is the ships that burn bunker fuel in port, whether they need your permission to do that. I am talking about heavy bunker fuel.

**Mr WEEDON** - Not fuel supply.

**Mr VALENTINE** - No.

**Mr WEEDON** - Essentially the international regulations with respect to ship emissions have been on foot for over a decade. The International Maritime Organisation is working closely with a number of nations with respect to the introduction of new emission targets for shipping that will apply on a global basis. Our understanding is new legislation will come into effect in 2020. Again, my understanding is the Australian Government intends the Australian arrangements will dovetail with the international regulations.

**Mr VALENTINE** - It was one or two; it might have been a Russian ship that used heavy bunkering fuel. They cannot buy it here because there is no facility to store it anyway, and there were question marks over them being allowed to use that fuel while they are in port. Sydney and a couple of other ports do not allow it. That was the reason I ask the question.

**Mr HIDDING** - The question is does TasPorts have a separate -

**Mr VALENTINE** - Controlling -

**Mr HIDDING** - The EPA does and TasPorts would stay at arm's length. Aaron Chester, the federal Minister for Infrastructure, has advised 2020 is the date by which it is expected the Australia-based fleet and international visitors should be looking to comply. That has certainly set the industry alight and a lot of ships need to install very expensive scrubbers. We have TT-Line tomorrow but we can speak about what that means for TT-Line as well. There is a time frame everybody has to comply with. The quickest way to comply with it is to buy cleaner fuel. That way you do not have to do anything to your ship. It is something like three times the price and the operating model for your ship changes enormously. Very little of it is yet available in Australia to buy. But because of this 2020 time frame, the main fuel companies, which are Singapore-based, will need to have that fuel on hand in Australia somewhere for the shipping market.

**Mr VALENTINE** - Some Antarctic vessels might still use that type of fuel from different countries.

**Mr HIDDING** - The old SeaRoad ship that was sold to Chile which went to Mexico could not switch its engines off because the fuel in it would turn to boot polish. It is that kind of fuel.

**Mr VALENTINE** - The last question I have is on container cranes. We used to have one here and I think it went to Burnie. Is there a plan to get one back here or do the ships that visit have their own lifting facilities?

**Mr BRADFORD** - No, not for Hobart. If we go ahead with the international container terminal at Burnie, that would require container cranes.

**Mr VALENTINE** - When I was in New Zealand for an Antarctic gateway summit, the Americans there said that if they were to come to Hobart, they would need a crane facility. That was one of the things against them coming here and using Hobart as a port.

**Mr BRADFORD** - If it is that critical, you would have a mobile harbour crane to service the client.

**Mr HIDDING** - If it was just from time to time, a crane can come in. The other thing is, the Swire ships all have on-board cranes.



## UNCORRECTED PROOF ISSUE

**Mr WEEDON** - The adjunct to that is that I am not sure there are many container cranes in the Antarctic either. It might be one thing to get it on a ship with a crane; I do not know how they plan to get it off.

**Mr VALENTINE** - That was the question. They looked at the map and picture and thought, 'No container crane, what is going on? Maybe they do have a container crane down there.'

**Mr FARRELL** - To go back to the King Island ship. That is an outright purchase; it is not a charter and the modifications being made are cosmetic and nothing structural?

**Mr WEEDON** - No, there are some fairly significant modification works to the vessel. One of the characteristics of Australian freight, particularly in containers, compared to many of the other parts of the world is that we load heavy cargoes here. We put 28 tonnes of fertiliser in a container. The average container weights of containers in Asian trades is probably 12 tonnes, if that. We need to upgrade the structural capacity of the vessel to make sure we can accommodate the specific cargoes we deal with in the Australian market. That means two pieces of work. One is structural underpinning under the decks to make sure the deck is strong enough to cope with a load of these heavy containers. The second is make sure the vessel bow door or the ramp onto the ship, to make sure is strong enough to cope with traffic bringing those containers on and off the ship.

**Mr HIDDING** - For Mr Farrell's interest, there is no work being redone, the deck was already on when we purchased it. The strengthening is extra strengthening and not work they could have done for us.

**Mr FARRELL** - This ship is virtually a new build.

**Mr HIDDING** - It is brand new. It only went in the water a couple of weeks ago.

**Mr FARRELL** - Will that have a covered deck area anywhere?

**Mr HIDDING** - No. The capacity is there to have a covered section like a taut line of a truck. That would be a development of the ship over the next 12 months or so.

**Ms FORREST** - One of the real concerns of King Island is transporting vehicles and farm equipment over. They leave as a black vehicle and arrive as a white one, thanks to the salt spray, then they rust very quickly.

**Mr WEEDON** - We spoke about that at the hearing. There are low-cost, sensible solutions that we can put in place without spending a lot of money on ship infrastructure.

**Mr FARRELL** - At the time you decide to build a purpose-designed ship for the island, this will go back on the market, and you hope there'll be a good market at the time.

**Mr WEEDON** - Our belief is that this vessel, with the modifications we are doing to it to make sure it can work effectively in the trade, will deliver an awful lot of what the King Island service needs. Is it Nirvana? Some will have the view that it is; some will have the view that it is not - but the important thing is to get the ship delivered, get it into service on a new service pattern linking Victoria to King Island to Tasmania and back to Victoria in a way the market's been asking for some time.

## UNCORRECTED PROOF ISSUE

Let's get that up and running, settled in, get the costs of operating the new ship with the new service pattern right, get a stable environment where customers are more comfortable with the reliability of the service and we have a cost model we think is sustainable, then we can reach out to the private sector.

**Mr BRADFORD** - If the Government prefers a different type of vessel over time, we would dispose of this vessel. The strength of our balance sheet means we don't have to do it in five minutes.

**Ms FORREST** - That's the TasPorts balance sheet as opposed to Bass Island Line?

**Mr BRADFORD** - It is the TasPorts greater corporate balance. TasPorts obviously guarantees the debt of BIL.

**Mr FARRELL** - Where will it go in Victoria? Has that been decided? There were several options there.

**Mr WEEDON** - That is work underway at the moment. It is a matter of finding the right solution. The important signal is the market. The King Island market has responded extremely positively to the announcements made some weeks ago that we are definitely doing a Victoria-to-King Island service.

**Ms FORREST** - And a King Island-to-Victoria service?

**Mr WEEDON** - Via the Tasmanian mainland, yes.

**Ms FORREST** - That doesn't fix the problems.

**Mr HIDDING** - We have said that when the market is there, there is a load necessary to be done, such as sheep, and if the Eastern Line wasn't travelling TasPorts would look at meeting that market. However, with Eastern Line coming in, appearing to be a King Island mainland service, you would not think it would be necessary. Either way, TasPorts is keen to meet the market.

**Mr WEEDON** - Yes, and in that work the selection of the Victorian port and the Tasmanian port is still a work in progress.

**Mr FARRELL** - Are any upgrades required at King Island for the newer ship?

**Mr WEEDON** - That work that is also under way. You can either upgrade and change the port infrastructure, you can upgrade and change the ship, or you can do a bit of both. That is exactly the work that is happening at the moment. As for capacity, it is smaller than the one that was in there - the SeaRoad concern.

**Ms FORREST** - Just looking at how TasPorts values its assets, it says -

TasPorts revalued its infrastructure assets at fair value using the depreciated replacement cost method.

## UNCORRECTED PROOF ISSUE

And the Auditor-General spoke about that in his report. Page 67 of your annual report shows that infrastructure assets at fair value, which is land, infrastructure, harbour improvements, wharves, et cetera are valued this way. Land and building is valued at fair value using your market method, which is on page 72, except perhaps some specialist buildings at depreciated replacement value. Floating plant, capital dredging and plant all at cost, less depreciation. Can you help me understand the financial goals of TasPorts? If you value assets on what they cost to replace there is not much point in your key results on page 35 having a return on assets and return on equity, is there, when their value is that way? What are the real financial goals of TasPorts?

**Mr DUGGAN** - In terms of the valuation process, we value every three years for infrastructure assets. That is wharves, land, buildings and port infrastructure. Our preferred methodology for value-adding that infrastructure is on a depreciated replacement cost method. In a simplistic way that says what does it cost to replace that asset and then it discounts back for its age.

**Ms FORREST** - As opposed to what it can earn?

**Mr DUGGAN** - As opposed to what it will earn. What we always do in deciding whether we adopt that is look at the earning capacity of the asset to see whether it supports that valuation. If it supports that valuation in terms of its direct earnings, then we are happy to adopt that valuation. There are some instances where we are unable to adopt that replacement cost because it doesn't have an income generation that supports it. The community assets that Paul referenced earlier are a good example of that. That is our valuation methodology.

We do have, overall, from a company point of view, a low return on assets. We have recognised that for some time, but that takes into account all of the income and all of the costs of TasPorts benchmarked against its total assets. On an asset-by-asset basis, some assets generate commercial returns and there are some that don't. There are a range of factors that are taken into account as to why they do or why they don't.

We are an infrastructure company. It is long-term infrastructure. There is a lot of maintenance required of that infrastructure in the short term which impacts on those returns that we currently report. I guess the good news is that we are now profitable. We are profitable enough relative to the assets that we employ in the business. That is something that we are continually judging and working on, but we are certainly seeing a return to profitability over the last two years and that should continue into the future.

**Mr BRADFORD** - We have rising profitability and we expect that to continue. It is very hard to retrofit decisions made on long-term assets made decades ago, but on new investments we consider seriously the return on investment - except for community assets, which have a different purpose. It is watched very closely by the board.

**Ms FORREST** - Who sets the financial goals? Is there any ministerial direction or is it all a board decision?

**Mr HIDDING** - There is a corporate plan signed off every year that addresses most of these issues broadly. If there is a certain direction or matter that we have in mind, we can raise that with the board and discuss it. There is a direction that takes place every year, signed by both.

**Mr BRADFORD** - A shareholders' statement of expectations.

## UNCORRECTED PROOF ISSUE

**Mr HIDDING** - There is also a statement of corporate intent. That is between the Treasurer, shareholder and the company - it is a reasonably short rope.

**Ms FORREST** - I assume that the decision by the Government to instruct TasPorts to establish Bass Island Line was a ministerial direction, effectively?

**Mr HIDDING** - No, it was a request accepted by TasPorts. There was a letter from me to the members of the board, which had a series of meetings over a month or two and accepted the request to do that. Naturally a government can always direct, but given that this is a shipping company and it is on the record that I have been talking to TasPorts for at least two years to say as we are looking to replace the King Island ship, I need a backstop in case we have a commercial failure.

**Ms FORREST** - It's not actually a shipping company, it's a port company, isn't it?

**Mr HIDDING** - Well, yes, it is. Sorry, a marine company. It's a shipping company because it has a lot of ships.

**Ms FORREST** - I suppose it has pilots and tugs and stuff.

**Mr HIDDING** - How many vessels in your fleet?

**Mr WEEDON** - Thirty-something.

**Ms FORREST** - You're not a freight company, though, shipping freight.

**Mr BRADFORD** - An infrastructure company. We do have floating plant and the expertise in the present board and management does include running shipping lines.

**Ms FORREST** - I accept the expertise is there.

**Mr BRADFORD** - For good or bad.

**Ms FORREST** - Quite a bit bad at the moment.

**Mr BRADFORD** - I'm optimistic.

**Ms FORREST** - In terms of profitability I'm talking about at the moment.

**Mr BRADFORD** - I'm optimistic.

**Mr DUGGAN** - It's also worth noting that TasPorts still operates under a number of long-term agreements that were negotiated before the merger of the ports into TasPorts. We have had to honour those agreements that have continued up until the present day.

**Ms FORREST** - What are they? What are some of those?

**Mr DUGGAN** - Without going into specifics, they are commercial agreements that were entered into by the previous port companies to secure freight activity through their ports, which in that time was probably sound commercial decisions.

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - What is the length of some of those agreements? Have they got much longer to go on them?

**Mr BRADFORD** - Sadly, yes.

**Mr HIDDING** - Ordinarily, as we were saying earlier about the Melbourne situation, the companies that operate out of Tasmania want long leases.

**Ms FORREST** - It does limit you a little, doesn't it?

**Mr HIDDING** - It does. With the previous structure of individual ports where they were fighting amongst themselves or were commercially opposed to each other, it could be argued that they under-contracted in order to attract some business their way and then did so for, say, 25 or 30 years.

**Ms FORREST** - They are almost onerous contracts then. They are not listed as that in your financials.

**Mr HIDDING** - It would not be described as thus by the holders of the contracts because they are happy with them. It is an ongoing conversation that I have as shareholder minister with this board and others that its own long-term paper it holds with its tenants should be as good as it can possibly be. In fact, I encourage both sides to get it as long as possible. That way it just drives investment because you have strong tenure.

**Ms FORREST** - Was the decision around SET a ministerial request also? How did that come about?

**Mr HIDDING** - No, it was a business opportunity for the Hobart port and TasPorts was aware of the antipathy in the south of the port as to a notion of a pile of woodchips on the Hobart port. It was never going to happen, but then we had this backlog of -

**Mr DUGGAN** - No pun intended.

**Mr HIDDING** - Yes, front log and back log - of harvesting a lot of these investments that people had made over the years in standing trees. It was identified that there was at least five years' worth of business there to be taken care of. The investments by both -

**Ms FORREST** - Are you saying it was a board decision basically?

**Mr HIDDING** - Yes, they briefed us on it. Qube came to see us and we encouraged them to speak to TasPorts.

**Ms FORREST** - I am just interested in the process of how it came to be.

**Mr WEEDON** - It was completely driven by the customer and the development of the business case that our board provided the oversight.

**Mr HIDDING** - It is indicative of the sort of talent we have, not just within TasPorts but on the board itself. Mr Bradford, you explained your interest in New Zealand and the strong knowledge of the transport of logs. You might just explain what it is.

## UNCORRECTED PROOF ISSUE

**Mr BRADFORD** - I sit on a board of a port in New Zealand, Napier Hawke's Bay. It is a small container port but its primary exports are logs and agricultural products in containers - logs in bulk, lots of logs. The wall of wood coming from New Zealand and plantation in Tasmania has a market.

**Ms FORREST** - So you are part of the problem then. You shouldn't have dobbed him in it like that, Minister. I can't believe you did.

**Mr HIDDING** - The fact is, that the kind of expertise that we have on our boards. He didn't get involved personally at that level but he certainly knew what was possible. Also the safety - any notion that TasPorts would do that itself when you had all that expertise by Qube - it is a very good arrangement, a very good partnership that has worked well for Hobart.

**Ms FORREST** - Can I just go back to one question we asked earlier about where Macquarie Wharf 1 is. You said you would keep the land, lease the land, but you must have sold the building on the wharf at some stage. When did you sell it?

**Mr BRADFORD** - For the hotel? No, we have leased the land for a long-term period.

**Ms FORREST** - The building itself.

**Mr BRADFORD** - The building was built by the tenant.

**Ms FORREST** - Wasn't there a building on that land?

**Mr WEEDON** - There was, but as part of the development project the developer demolished the old building to make way for the new. The building envelope, as they refer to it, so the size, the length -

**Ms FORREST** - You didn't sell the building?

**Mr HIDDING** - Sold the footprint.

**Ms FORREST** - How much did you sell the footprint for?

**Mr WEEDON** - Under a lease.

**Ms FORREST** - That is all leased then? Just to clarify that.

**Mr HIDDING** - Substantial.

**Mr BRADFORD** - The developer took the risk on developing the hotel and then having an operator.

**Ms FORREST** - And getting approval from the Hobart City Council.

**Mr BRADFORD** - I have had a look at it. I would have thought it is a stunning acquisition to the Hobart waterfront. It will serve tourism very well. It is a high-end product.

## UNCORRECTED PROOF ISSUE

Ms FORREST - For those who can afford to stay there.

Mr BRADFORD - Those who can afford to stay there. No, I don't stay there.

Ms FORREST - We are pleased to hear that.

Mr VALENTINE - With regard to MAC2, what is the circumstance That is for cruise ship terminals, primarily. Is that building yours?

Mr BRADFORD - That is ours.

Mr HIDDING - It was developed by TasPorts, prior to my time.

Mr WEEDON - Again we had specific customer need in the Antarctic sector from the Antarctic Division and cruise lines are all saying, 'We would love to see upgrades in the infrastructure that you are making available to us', so we developed -

Mr HIDDING - Annual pay.

Mr WEEDON - Yes, it was a co-habitation strategy by being able to combine cruise and Antarctic in the one facility. We were able to then get the business case up to do the refurbishment of the building.

Mr VALENTINE - How is the ROI going on that return on business?

Mr WEEDON - Outstanding. We believed it would be at the low end of the range in the business case, but the returns have been well beyond anything we hoped so we are very happy.

Mr HIDDING - This is a number of cruise ship businesses.

Mr VALENTINE - What is the typical price a cruise ship would pay to dock there overnight or for as long they want to - eight hours, 12 hours?

Mr WEEDON - It would depend on the shipping.

Mr VALENTINE - You are not going to let us know? Ballpark.

Mr HIDDING - It is highly commercial and competitive.

Mr VALENTINE - There is no other port going to get them down this way.

Mr HIDDING - They could go elsewhere.

Ms FORREST - They can anchor off.

Mr HIDDING - They could go to Port Arthur.

Mr BRADFORD - Port Arthur is doing very well.

Ms FORREST - And add Wineglass Bay and Stanley and places they can anchor off.

## UNCORRECTED PROOF ISSUE

**Mr BRADFORD** - The cruise industry, as like most industry, is not overly keen on paying higher rates.

**Ms FORREST** - Aren't they?

**Mr BRADFORD** - No, they are not and so the management of the board have a pricing structure for Hobart and Burnie and cruise vessels and they should contribute to the infrastructure we provide.

**Mr VALENTINE** - How far forward do you set your pricing? Do you do that on a block of so many years?

**Mr BRADFORD** - It is done annually with reviews but you are on the right track. We may move in time for the cruise industry, given the way they price their published product, into a more longer to medium term pricing structure.

**Mr HIDDING** - Right now Hobart is a highly desirable cruise ship location and so we are in a better negotiating position. They want to be here and once one of them comes, they need to compete.

**Mr BRADFORD** - Great demand for Tasmania, Burnie, Hobart and Port Arthur. We are happy to provide the pilots and infrastructure.

**Ms FORREST** - Are the cruise ships increasing their maintenance task. In Burnie the dolphin has moved them from the main port but that is mainly because of the size of the ships to come in.

**Mr WEEDON** - The additional dolphin was to accommodate larger ships and is the phenomenon in that sector.

**Mr HIDDING** - The first one was in a couple of weeks ago.

**Mr WEEDON** - Ships get bigger and bigger.

**CHAIR** - Following on from what Ruth asked, you do not see any extra additional capex having to be spent or accommodated for cruise ships?

**Ms FORREST** - Or maintenance?

**Mr WEEDON** - Maintenance, no, in that it is a busy, but for a short period of the year. The rest of the year we do not see a cruise ship so impact on maintenance is limited. We will see step change demand for capital investment in cruise infrastructure. A couple of million dollars for some more mooring infrastructure. It is potentially a different terminal solution for cruise ship lines in Burnie.

**Mr BRADFORD** - Chair, land based in Hobart because, for instance, the number of coaches servicing those larger vessels is considerable and how we restructure the roadway to service that and the movement of people in the area is under reflection.

**Ms FORREST** - That is an issue in Burnie because they are coming onto a working port.



## UNCORRECTED PROOF ISSUE

**Mr HIDDING** - Yes, it is awkward there.

**Ms FORREST** - Yes, and the security arrangements.

**Mr WEEDON** - We are working to resolve that through the Port Master planning work. We have some pretty interesting concepts on the table, which we will take to the board in March/April next year.

**Mr HIDDING** - The Burnie Council has raised it with us a number of times and the mayor has been passionate about working through the issues. I have asked TasPorts to look strongly at that. I love the fact you have cruise ships leaving Hobart and going up to Burnie.

I have seen people from the cruise ship in Burnie in Deloraine at the Deloraine Arts Centre. I spoke to someone who was clearly a tourist and they said, 'We're off the ship', I said, 'What ship? We're in Deloraine'. They said, 'From Burnie', so -

**Ms FORREST** - They are in all day, so they have time to do it. They go to Cradle Mountain and a range of places.

**Mr HIDDING** - There is a lovely spread of activity, and great we could invest in them more. In the scheme of things it was not that much money. It was \$3 million or \$4 million, the dolphin extra.

**Mr WEEDON** - The extra dolphin was a shade under \$2 million.

**Mr HIDDING** - That facilitated that large ship in the other day, and they can all come in now.

**Mr BRADFORD** - Burnie rates really highly on passenger satisfaction.

**Mr HIDDING** - They love it.

**Ms FORREST** - That is because the new mayor used to meet them at the bottom of the gang plank wearing his gown and robes. That is why they love it.

**Mr VALENTINE** - That is why they come to Hobart. I used to do that.

**Ms FORREST** - Our one led the way.

**Mr BRADFORD** - It is globally referred to in Fort Lauderdale each year when the cruise lines meet, the popularity of Burnie.

**Mr HIDDING** - They love the big wood chip pile and the way the trucks tip up.

**Ms FORREST** - It is quite entertaining to watch, yes. We need to thank the late Stephen Hyatt for his work. He did an enormous amount of work in attracting cruise ships. He died unfortunately very young.

**CHAIR** - Members.

## UNCORRECTED PROOF ISSUE

Mr FARRELL - With employees, you employ all the pilots and port staff?

Mr WEEDON - Yes.

Mr FARRELL - The Bass Island Line, you do not directly employ people. Is that done through a -

Mr WEEDON - At this early stage, no, we have one or two direct employees of the Bass Island Line. What is the right organisation model for that business is something that will develop over the next 12 months.

Mr FARRELL - That was more just a convenience thing to go to the company.

Mr HIDDING - There is an industry arrangement where you hire crews.

Mr WEEDON - That is the model we utilise at the moment. We use what they call a 'crewing company'. They employ the officers and crew to drive and operate the ship. Some like Toll, for example, or SeaRoad employ their own people. At this stage, we have started with the crew supply model. As we develop the business over time, we will review the suitability of that arrangement.

Mr FARRELL - That has to be through an interstate company because there is not a crew hire company in Tasmania for shipping?

Mr WEEDON - Correct. It is a quite specialised activity.

Mr HIDDING - It is expensive, but clearly for the short time frame they had to set it up, it was the right model to do for the *Investigator*.

Ms FORREST - Are you still expecting further growth in the Burnie port? I know the Rentails project at Renison would ship out of Burnie, and also they are looking furning at other companies' product. There is plenty of capacity there for increased mineral exports?

Mr HIDDING - There is an ongoing discussion with the master plan and also the ship loader, which belongs to TasRail. This is an across-government consideration. I remain highly interested in that whole methodology. Both companies know that I am interested in that. There is great opportunities to go to a different loading methodology. That is being explored. Certainly, we are aware Rentails is a current and live one, but as commodity prices come back there will be other operations. With the Melbourne line, we have a lot of money invested with the rail below and above rail to handle that. The port needs to be able to handle it. It is fair to say over the last few years, the export of minerals has not been huge, and therefore there is less capacity.

Ms FORREST - I would hate to see them held up from a lack of capacity at the port.

Mr WEEDON - The berth utilisation on the bulk minerals berth is 19 per cent.

Ms FORREST - There is plenty of capacity there?

Mr WEEDON - There is plenty of ship-side capacity.

## UNCORRECTED PROOF ISSUE

**Mr HIDDING** - Ideally, of course, for a megaproduction, you would actually have to mine the port itself because it is almost solid rock.

**Ms FORREST** - You might be able to find the tailings there.

**Mr HIDDING** - If you could, it would be very interesting. If you could achieve a couple more metres, you would go to a Cape class ship, which is what they are all hanging out for because it is far cheaper to transport.

**Mr WEEDON** - That is hundreds of millions of dollars.

**Ms FORREST** - Is there capacity to work with Grange at Port Latta and bringing ships in there? That is privately owned?

**Mr WEEDON** - That is a privately owned facility. We own and operate the port, and the port waters, but the terminal itself is owned by Grange, yes.

**CHAIR** - Minister, on behalf of the committee, I thank you for an educative session and one with some very frank answers from your team. We thank you very much.

**Mr HIDDING** - Thank you. We will see you tomorrow.

The Committee adjourned at 4.55 p.m.

