

UNCORRECTED PROOF ISSUE

Tuesday 2 December 2014 - Legislative Council - Government Businesses Scrutiny Committee A - Aurora Energy

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Tuesday 2 December 2014

MEMBERS

Mr Armstrong
Mr Farrell
Ms Forrest
Mr Gaffney
Mr Hall (Chair)
Mrs Hiscutt
Mr Mulder

IN ATTENDANCE

Hon. Matthew Groom MP, Minister for Energy

Ministerial Office

Sean Terry, Deputy Chief of Staff

Aurora Energy

Mr Geoff Willis, Chairman

Mrs Rebecca Kardos, Chief Executive Officer

Mrs Carolyn Pillans, Company Secretary/Group Manager Business

Mr Tim Pearson, General Manager Billing & Systems

Mr Grant Russell, General Manager Customer Operations

Mr Kane Ingham, Group Manager Commercial Services

Ms Michelle Brooks, Manager People & Performance

Mr Chris Warr, Manager Corporate Affairs & Stakeholder Relations

The committee met at 9 a.m.

CHAIR (Mr Hall) - Good morning, everyone. Minister, would you like to make an opening statement?

Mr GROOM - I would be very keen to provide some brief overview comments. I would like to acknowledge it is an absolute pleasure, as the Minister for Energy, to be here today to participate in this hearing on Aurora Energy.

This is a significant moment in the history of the company, as it is the first time we have been through this process with Aurora Energy as a stand-alone retailer business. It is a significant adjustment from previous years. The distribution side of the Aurora business has been separated and merged into TasNetworks. I believe this has afforded the company the opportunity to refocus. I have been very pleased with the performance of the company, under the leadership of Mr Willis and Rebecca Kardos, in refocusing towards reduced costs and a greater awareness of the needs of customers. There are some significant indicators that the company has taken significant steps forward in this regard. In the context of some of the issues Tasmanians have had to deal with in recent years, particularly in relation to higher power prices, this is a significant development.

From the Government's perspective, we recognise energy as being very important to underpinning our agenda of state growth, attracting investment and creating jobs. It is for that reason one of the first things the Government embarked on, on coming into office, was the establishment of the energy working group to help advise the Government in the development of a whole-of-state energy strategy. That energy strategy has been very much focused on providing a pathway for restoring Tasmania's energy advantage, making sure energy works for the Tasmanian community and supports economic development and growth opportunities for Tasmania. I am very pleased to say we are on track to deliver a draft of the energy strategy this year consistent with the Government's policy commitment.

It was pleasing from the Government's perspective to see a reduction in power prices on 1 July of 7.8 per cent, as a consequence of the removal of the carbon tax. That has provided significant additional relief for households and small businesses, but we recognise there is more to do and that is why it is pleasing to see the firm commitment from Aurora Energy to prudent cost management and looking for additional ways to provide good outcomes for power consumers in Tasmania.

One of the issues that has been the subject of discussion in recent years, is the transition to full retail contestability. It is appropriate to acknowledge that from 1 July the Tasmanian retail market was opened up fully to competition. It is true to say in the residential component of the market that competition has not yet emerged. That is something the Government is focused on. We have had discussions with retailers and will continue to have those discussions to identify what ongoing barriers there may be for entry into the Tasmanian market. It is still the Government's view that genuine competition in the retail segment of the market can deliver the lowest possible power prices over the longer term. The Government is going to act very responsibly in that area. We will not do anything that is not in the best interests of Tasmanian power consumers. There has been, as I am sure Geoff and Rebecca will refer to, some movement in the small business segment of the market. There has been another participant that has been active in that market and so we have some increased competition for small business.

One of the things that is very important from the Government's perspective, is ensuring we have ongoing support for those who are enduring difficult financial circumstances. The Government was very pleased to be able to fill the gap left by the Commonwealth Government in relation to concessions. We delivered an additional \$9 million annually in the recent state Budget

to ensure we have appropriate concession arrangements for Tasmanians. It is recognised that Tasmania has amongst the most generous concession arrangements in the country. An electricity concession amount of \$458 is the highest of any state or territory in Australia. That is a very significant commitment the Government maintains. We consider it to be very important that energy, given that it plays such an essential role in people's day-to-day lives, is affordable. That is why we have maintained a very strong commitment to concession arrangements.

I want to acknowledge that Aurora has emerged as the new Aurora - small, nimble and very much focused on prudent cost management and customer outcomes. This is a very significant development in the history of the company. It is very important for the experience of power consumers in this state and consistent with the recognition the Government gives to energy as underpinning economic development, investment attraction, and job creation in Tasmania. With those few words, I will hand over to the chairman, Geoff Willis.

Mr WILLIS - Chair, we are very pleased to be here this morning to look at Aurora Energy's financial and operational performance for 2013-14, but more so to talk about the new stand-alone retail business that has been in operation since 1 July 2014. For last year, the operating profit of the company was \$83.1 million, an improvement on the previous year's \$75 million, and enabled a record return to government from Aurora of \$70.7 million. A record level of profitability was achieved during the challenging period when the company was both preparing itself for a new future and continuing to perform strongly in its business-as-usual role of distributing and retailing electricity to Tasmanian customers.

Throughout 2013-14, the distribution business worked very effectively with the newly formed TasNetworks to bring about that merger with Transend. Early in 2014, the distribution business achieved a major milestone by becoming accredited to fully support full retail contestability, including the systems which facilitate customers churning and the billing by multiple retailers.

Early in the year, Aurora Energy's retail business was being systematically organised to be sold in two tranches, however, as the committee would be aware, the former government suspended that sale process in September 2013. From then on the business was quickly and decisively transformed and repositioned into a small-scale, stand-alone retailer fully prepared to operate in a full retail contestability environment.

This transformation involved a business restructure, re-engineering of a wide range of business practices, policies and processes, and it also resulted in the business having a rescoped senior management team with all of those roles redefined. We recruited a new chief executive for the business - Rebecca Kardos, who is here with us this morning - and we selected a senior team with the skills, experience and background to oversee the company according to this new speciality and scale.

From 1 July, the Tasmanian customers, including small businesses and households, became full participants in a competitive market. As a result of the reform, the industry structure is now more specialised, more efficient and will proceed with a lower cost structure. Aurora Energy has played a central role in this reform and established a platform for the electricity sector to continue to underpin and support economic development, and to this extent we are very pleased for the part that we played during the past year.

In moving forward, Aurora Energy entered the new financial year as a stand-alone small retailer and has taken a new strategic vision and a reinvigorated focus on serving its shareholders and its

customer base. Whilst competition is yet to emerge in retail customers, we have laid a solid foundation for our participation in the competitive retail market and we have already seen competition at the small-business end of the scale.

While there are important challenges ahead as electricity demand continues to fall and we face the prospect of new entrant retailers, Aurora Energy employees have demonstrated that they have the knowledge, the skills and the commitment that are needed to take this business forward in the new marketplace.

CHAIR - Thank you, minister. Given all the restructure that has taken place, and particularly with TasNetworks now being in place, with Aurora sitting out there just as a small retail arm, is Aurora still on the market?

Mr GROOM - As I have alluded to, it continues to be the view of the Government that over the longer term genuine competition within the retail sector of the market will deliver the lowest possible power prices that are sustainable. We remain open to discussions with interstate retailers, other retailers in terms of identifying what barriers they might see for entry into the Tasmanian market and so, in that sense, the customer list is still on the table, but we will not do anything which is not in the best interests of Tasmanian power consumers so we are going to act very carefully in that space. In the meantime, we have been very focused on working with Aurora Energy to ensure that it is set up as a genuinely competitive company able to participate in a competitive market. I have been extremely pleased with the approach taken by the company under the leadership of Geoff and Rebecca in terms of preparing Aurora for that environment.

As has been alluded to, the company is a substantially smaller company; Aurora had in excess of 1 000 employees and it now has 165 or thereabouts. It is a substantially different company. It is focused specifically now on electricity retail. It has adopted a strong customer-focused approach which is at the front edge of the approaches adopted in the retail market nationally. I feel confident the company is set up well to operate in the competitive environment and delivering good outcomes for Tasmanian power consumers but we remain open to the concept of new entries into the market.

CHAIR - You would probably agree, that given the critical mass, or lack thereof, in Tasmania, that a potential purchaser may be turned off and it may be very difficult to sell.

Mr GROOM - I think retailers have an interest in the Tasmanian market. There were lots of factors at play that created the circumstance where the previous government's sale process fell over. I will not go into the details but I have expressed those concerns previously and they have been reinforced in discussions I have had with retailers nationally. I think there is appeal. I am not saying that there aren't challenges but I do not think that the size of the Tasmanian market is prohibitive in terms of attracting interest into the residential segment of the retail market in Tasmania.

Ms FORREST - I think Rebecca wanted to make a statement.

Mrs KARDOS - I, and my team who are with me today, feel privileged and proud to lead Aurora Energy into this new chapter as a stand-alone, retail-only energy business in a competitive landscape. We are quite a different business from what we were before. We are a much smaller business and much more focused on our core business which is our customers.

In terms of the workforce dynamic, it probably typifies that change in scale and scope. Previously we had 1 000 employees, predominantly the age profile was they were in their 50s, had long tenure and predominantly male dominated. The workforce now has an average age in the 30s, so it is a much younger workforce. The team reflects that and also we are now a predominantly female workforce with 63 per cent of our workforce female. It shows what a different entity Aurora is now from what it was before

In preparation for 1 July, we have systematically gone through every aspect of our business and we continue to do so to ensure we can bring about the lowest cost in terms of retail in terms of the cost factor but also ensuring that we can be responsive to the needs of our customers and that we are well positioned for future competition. We are seeing emerging competition in the small business space, and that is an area of focus for us going into 2015, making sure that our operating model reflects the needs of the market.

We have also recognised we have a high proportion of concession customers in Tasmania, probably higher than in other jurisdictions, with 80 000 customers receiving concessions. One of the critical planks in our systematic review, is ensuring that the support that we provide to vulnerable customers is fit for purpose and genuinely supports residential customers who are experiencing financial hardship. This is best typified by the recent launch of the Your Energy Aurora support program, where we have put in place a series of mechanisms to encourage and support customers when they are experiencing financial hardship and making sure that not only are we assisting them to stay connected, which is the critical element, but how we can help them reduce their energy consumption, and as a result their bill, and get back on top of their payment mechanisms.

I feel quite privileged and proud of being given the honour to lead Aurora through the next chapter and feel confident in my team and the board and the support from the minister that we can provide a strong response to competition, provide value to Tasmanian customers with that focus on mainland Tasmania, as well as delivering value to the broader Tasmanian community.

Mr GROOM - I am very pleased we have been able to secure someone of Rebecca's experience. She has phenomenal national experience in the electricity market and it has been fantastic that we have been able to secure Rebecca to lead the company through its next phase.

CHAIR - I apologise, Rebecca, for missing you off the introductory list. I heard Mr Willis. Now I have my hearing aids in, I know.

Ms FORREST - The purpose of this is also to look at the last year, which is what we are here for more than the future, even though the future is perhaps more interesting in some regards.

You have identified, minister, that there is a range of challenges with the Tasmanian market, in that we have some of the highest energy use percentage wise but also the highest number of people on concessional support. One of the things you may be looking at is that another retailer might come in and say, I will have those ones, those ones and those ones and Aurora can keep all those ones over there who are the concession holders and the poor payers and those who are not as attractive as customers.

Mr GROOM - We have some characteristics which are a bit different. We have a higher number of concessions recipients. There are other characteristics that seem to be more attractive and it would be worthwhile to get some comments from Rebecca on this. But in some instances,

those who are suffering financial hardship, if they have assistance from the company, are not the worst payers. It is not necessarily as much a negative factor as you might otherwise anticipate.

We are also good consumers and that has good and bad to it from a retailer's perspective. That can have a certain attraction from the Government's perspective and from a consumer's perspective. That is something we need to do more on and I am pleased Aurora has shown leadership in working with consumers to identify ways to reduce consumption. From my own practical exposure, going door to door as a member, there are, unfortunately, many households in Tasmania that do not understand some of the most fundamental aspects of energy use and as a consequence are still making decisions which impose unnecessary financial hardship on themselves and their families and, in some instances, small businesses.

This is an important area of focus for the Government from a policy perspective but we believe Aurora, as the retail business in Tasmania, has an important role to play in working with their customers to ensure people are making good decisions when it comes to energy.

Ms FORREST - On that point, minister, you have some decisions to make regarding the customers and there is a whole heap of things that can be done, and there is still a lot of work to do in that area in supporting customers. Is there any intention to try to crack into that mainland market?

Mr GROOM - No. One of the things we have been at pains to do with the new Aurora is to make sure it is focused. Where it is right now is significantly more focused than in the past. Part of that is getting out of the national market. Aurora transferred the last tranche of its national retail customers to Momentum as part of the re-arrangements and that has ensured they are very much focused on serving the Tasmanian consumers.

Ms FORREST - Isn't that a risk if competition does open up, particularly in the household market, in the small retailers, even small business, but you lose a lot to other retailers that may come in and then you have an even smaller business that then becomes uncompetitive.

Mr GROOM - That is one of the challenges we have, and my position as a representative of the Government is slightly different from Aurora's. The focus of the company, and from the Government's perspective what we want the company to focus on, is being as efficient and competitive as it can be and focused on the customer. That is what we want. It is a simple mandate and it is one that the new Aurora has embraced fully and completely, and I think we are seeing significant benefits.

From the Government's perspective, we have to take a broader perspective. We have to be mindful of the long term and the potential benefits that can emerge from additional competition in the market.

As I have indicated, it is still the view of the Government that if we can facilitate genuine competition into the residential segment of the retail market, that is something that we want to see. We are continuing to have discussions with other retailers to identify barriers that there might be, but we remain open to that. What we will not do in that space is make decisions that are contrary to the best interests of Tasmanian power consumers.

I mentioned the energy strategy before and we will be releasing the energy strategy in the course of the next couple of weeks for public consultation. One of the key aspects of the energy strategy is restoring Tasmania's energy advantage, and a key component of that is putting people

first. We want the Tasmanian power consumers to be the key beneficiaries of energy. In that context, the Government must always have a mind that is broader and understanding the potential benefits that additional competition can offer.

Ms FORREST - I absolutely agree with it and that is a really important focus, but looking at the big picture in the long term, hopefully there is to be some greater competition that will force prices down a bit. That is the idea of competition after all, generally. Then it can erode the customer base of Aurora and so what is the future for Aurora then? Is there any capacity to expand? There are risks associated with that, too, I accept that the focus then shifts to try to get into markets on the mainland and perhaps lose a bit of focus on the Tasmanian customer, which is a risk, but is that something that will be considered?

Mr GROOM - The starting position is that, if we encourage Aurora to operate as a genuinely competitive company - that is its mandate and I think it is doing it well; this is the experience of the new Aurora - then it will have a space in the competitive market, but there may come a policy judgement for the Government, which is separate from the Aurora perspective.

Ms FORREST - That is what I am talking to you about, the policy position here.

Mr GROOM - Yes, that is right, that is separate from the Aurora perspective; it is taking a whole-of-state perspective. It may be that at some point we would contemplate, for example, the sale of the customer list again. We are open to that. What we are not going to do is put ourselves into the position taken by the previous government, where the previous government pre-announced a commitment to that process with a fixed time frame and I think put itself into a difficult position. We are not going to do that. We are open.

Ms FORREST - The question I am asking, though, is it any part of your forward thinking and would it be a policy decision to allow Aurora to operate in the mainland market?

Mr GROOM - No.

Ms FORREST - Not at all? So you are basically constraining them to within Tasmania?

Mr GROOM - Yes, and it is a deliberate decision because we think it is absolutely critical that Aurora Energy is focused on good outcomes for the Tasmanian power consumer and being focused and efficient with prudent cost management. That is why we have supported the movement of Aurora out of the national market. That is why we support its customer focus and we think that is very important for good outcomes in Tasmania.

Ms FORREST - Even though they could potentially make a bigger profit if they went into the mainland market and pay more dividends to the state, and thus to the government coffers? That is not on the table?

Mr GROOM - There are risks with a lack of focus and also there are risks in the national market in operating as a retailer. We do have exposure there through Momentum and we do that for very good reasons, which is about risk mitigation in terms of our Hydro portfolio.

Ms FORREST - But they have held Hydro up a little bit in the last year or two.

Mr GROOM - That is true. We have exposure in the sense that we are delivering returns back to the state as a consequence of that exposure. We are already doing that but I think, for Aurora Energy, its new focus, its new discipline and its new commitment to consumer outcomes is absolutely central to the mandate the Government has given it and it is central to their approach, and I have been very pleased with that.

Mr WILLIS - I can add one point from the Aurora perspective, that it is about getting the cost structure to the lowest level and then also making the cost structure of the company as variable as possible so that if the level of customers does come away as additional competition comes to the market, we can continue to keep control of that cost base.

It is a very internally focused matter at the present time in terms of cost structure but that is what we are designing the company's processes to deliver.

Ms FORREST - Most businesses like to grow their business but potentially you are going to shrink yours.

Mr WILLIS - We are in a different remit and the response from the company is very conscious.

Mr GROOM - We are in a different circumstance and the key to it is putting Tasmanian power consumers first - that is what it is about. That is what drives Aurora and that is what drives the Government.

CHAIR - We will keep on that theme for a moment. Governments often talk about households - sometimes that small businesses, which are significant consumers, also tend to get missed out a little bit in the equation. Minister, you talked about a lot of households not being able to manage their energy costs, buying or whatever, do you give advice to small business as well?

Mr GROOM - It is a very good question, Chair, and I am very pleased to say that it has been a key focus of Aurora Energy - I might describe it as the new Aurora. It is very focused on the small business segment in particular and there have been a few reasons for that. One is, that is where the competition has emerged and so Aurora has appropriately responded to that. They have also adopted a new focus on working with small business customers to ensure that they are getting good outcomes from an energy-efficiency and power bill perspective.

Mrs KARDOS - For small business, because they have been covered by the standing offer; it has been a 'one size fits all'. Now, with full retail contestability in those previously non-contestable small businesses, we have the opportunity to target those segments and they are segments within the small business - not every small business has the same needs from their energy provider.

Over the last few months in preparation for 2015 we have been looking at what other products and service offerings that better suit small business needs. We have been engaging with various small businesses to get a better understanding because we recognise that it is a significant input cost into those businesses and can really affect their profitability. We are taking a more targeted approach which is similar to what we are doing with vulnerable customers and other customer segments versus this 'one size fits all'.

The other thing we are going through at the moment is re-organising how we service and how we engage with small businesses. We are establishing a dedicated small-business sales and service team that will fully understand what the needs are of small businesses, be proactively engaging with

that segment of customers and making offers to them in the New Year around what can we do to help reduce their energy costs - and their energy consumption because obviously one leads to the other.

CHAIR - When you say 'targeted', do you mean splitting the small business community into different segments? Is that what you are doing?

Mrs KARDOS - At the moment we look at small business as 30 000-odd small business customers but within that there are various different segments with differing needs. For example, we have had discussions lately with Ben Kearney from the newsagency about what the needs are for newsagencies. What is driving their energy costs and how can we make an offering that is more targeted to those needs, and when their energy is supplied, to help them reduce - I think everyone knows that newsagencies run on a very tight cost structure - what can we do to assist them in reducing their energy costs?

Ms FORREST - Bakeries are another one that have significant issues.

Mr GROOM - Yes, that is true.

Mrs KARDOS - There is an opportunity - and we are the beginning of the journey, not the end - to slowly work through each of those various different industries, getting a better understanding of what their energy needs are and then tailoring a product. It is not just a market contract. It is also what the service offering is and what we can do to assist them around payment options. It is not just the price; that is the key point I want to make with small business. I believe it is sales and service, the full offering. The team is very focused on that. That is one of the key initiatives we will going forward with into the new year.

Mr GROOM - This is a great example of where we can use energy in Tasmania to our advantage again. To hear Rebecca talk as the CEO of our retailer in Tasmania, working with business to reduce cost pressures and put businesses in a position where they are able to grow and create jobs for Tasmanians, I believe there is a great opportunity in partnership to deliver those outcomes. I commend Aurora for its approach which has been a key focal point for the business.

CHAIR - Aside from households and small business, what volume of sales to our large industrial customers are you still involved in, or is it TasNetworks that has most of that business?

Mr WILLIS - We are holding sway very well, are we not, Rebecca? We have a number of offers out at the present time with the large customers. Again, as to the reorganisation Rebecca spoke about with small business, we have a dedicated group of people for our priority customers -the top 100 in Tasmania. In the past there has been a lot of thinking about the major industrials - a clutch of five or six main customers - but the definition we have put on this is the top 100. We have a number of offers out at the present time which we are very hopeful will bring home the bacon.

Ms KARDOS - Of the large customers - they have been contestable for quite a long time - of the market contracts that have been available over the last financial year, we have secured 60 per cent of that load. We are continuing to be a key player in the large customer space and will continue to compete in that space and secure those large customers and be competitive in service offering. I am building on what Geoff said. What we are doing with our top 100 is the premium service. These are big customers, very important to underpinning economics of this state. What can we do to work in partnership with them to assist them, not just in energy but also in the entire

supply chain? Can we facilitate or assist them with changes around their connection services, say with TasNetworks? What can we do to engage with them on a broader scale as well? We have systemically been reviewing our business and looking at how we can take a targeted approach because that is how we will be competitive, retain market share and minimise the risks you were alluding to earlier.

CHAIR - To clarify, with regard to the Rios of this world, the old Transend was the principal supplier and had contracts with Transend, how that now fit with TasNetworks and Aurora?

Mr WILLIS - It is a bit of a case-by-case situation. Rebecca knows this intimately, but the big customers have very special needs and there is a tendency now to break apart what used to be a simple relationship with Aurora, where Aurora in turn bought the energy and made the supply, to uncoupling all these things and making individual contracts with Hydro for the energy, with TasNetworks for the network and distribution, and with Aurora for the retail services. There is something different in the marketplace here. We are very focused within Aurora on making sure that retail offering, the part we can contribute to, is tailored to their needs. It is a bit of a changing space and perhaps Rebecca can give you the detail on that.

Ms KARDOS - For all the large customers, those major industrials in Tasmania, we are their retailer, so we have a retail services agreement with all of those large customers. However, what we have done with them in recognition that they contribute in excess of 50 per cent of all consumption in the state is they negotiate directly with Hydro in terms of their wholesale energy, and then we effectively provide a retail agreement because that is required under the market rules.

We also allow them to negotiate directly with TasNetworks around their specific transmission and distribution. We just facilitate those arrangements, add value where we can and get out of the way when we need to. That is the nature of those arrangements and we are continuing with those arrangements going forward, with a number of them being extended.

Mr GROOM - I would also say from the Government's perspective that each of the energy businesses is playing an important role in working closely with major business in Tasmania, including the major industrials, to ensure we get good outcomes. As has been acknowledged here, they are absolutely fundamental to the Tasmanian economy. Major industrials - the top four or five - represent about \$2.5 billion of economic activity annually to the state and directly and indirectly about 10 000 jobs, so they are very significant. As we would all recognise, they are often operating in very competitive environments, trade-exposed environments, so the Government is very committed to working with those businesses to ensure we deliver good outcomes. That is a commitment that is shared by each of the energy businesses.

Ms FORREST - They do buy some direct from TasNetworks for their high-voltage energy?

Ms KARDOS - They do not buy energy from TasNetworks; this is more in terms of the distribution or transmission of energy.

Ms FORREST - So part of the transmission direct to them. They only have 12 customers, or they had.

Mrs HISCUTT - Minister, you talked about your hardship program; how will that work on the ground? I can see the bigger businesses and businesses seeking information they need to save

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the dollar that they need to save, but for the little customer on the ground how are you going to get that information out? How will it work? It is good to say that we are going to give them information and we are going to help them, but how will that work?

Mr GROOM - This is a very strong commitment for Aurora and, as Rebecca has alluded to, Aurora has recently announced a new program, the YES program, which is very much about engagement and identifying a range of different measures to assist people who are dealing with financial hardship.

Ms KARDOS - We are using the community services sector to assist us in engaging with customers because, you are right, if they do not contact us there is not a lot we can do.

Mrs HISCUTT - They will come knocking on my electorate door saying, 'Help me'.

Ms KARDOS - I have a brochure here if you would like to help us promote the program, because it is very new. We have been working closely with the community services sector - Anglicare, the Salvation Army, TasCOSS and all those different areas - to get the information and the word out there. For any residential customer, whether they are on pay-as-you-go or a regular meter, if they are having any financial difficulties we want them to contact us. When they ring in, our customer service agents are listening and hearing for any triggers of financial difficulty.

Mrs HISCUTT - Will these people actually go into their home and have a look?

Ms KARDOS - No, we do everything over the phone. Once we identify that a customer is potentially experiencing financial hardship, we then transfer them to our dedicated YES team. The YES team is then trained to work with those customers, understand their specific circumstances - because it is never the same; it is different for every household - then have a range of options to enable us to support them at that point in time and also on an ongoing basis, because circumstances change again in the future.

Some of the options around that are looking at how they pay their energy bills. Can we simplify that and make them smaller, easier payments? Another way is looking at how we can reduce the consumption and one of the things we will rolling out in the New Year is an online energy audit function so that we can take the customer room by room and get an understanding of what is driving their energy bill. What we have found is a lot of vulnerable customers have cheap electrical appliances that are exceedingly expensive to run. The \$25 heater from down the road is costing the same amount per week to run.

One of the other initiatives that we are rolling out in the New Year, and we are in negotiations with one of the community servicing sector, is having a heating appliance swapping program. If your customers are in really challenging circumstances and the option of swapping that heater is just too challenging, we will swap the heater for them and put in a more economical and efficient heater and enable them to get on top of their bills.

Mr GROOM - Some of those heaters are particularly inefficient.

Ms FORREST - They are, but if you can wire in a heater to Hydro Heat it is cheaper than anything you will plug in a wall.

Mrs KARDOS - They are much more efficient. One of the great things that happened with the focus on the environment, and this is globally, is we have much more energy efficient appliances now available on the market. The challenge is, if you are in financial difficulties and you have affordability issues, you are not in a position to buy them and they still seem to be at a price premium compared to others. If we can assist those specific customers who are experiencing extreme hardship, by swapping an inefficient heater, that is a real opportunity to reduce because the majority of energy consumption in the home comes down to,

Ms FORREST - It comes down to advertising the whole-of-life cost of a heater as opposed to what you pay for it when you pick it up off the shelf, as opposed to what you pay for it after three years or five years or 10 years of use.

Mr GROOM - That is why it can make sense from Aurora's perspective because over a longer period you can recoup the additional cost.

One of the other things that has been great about Aurora's initiative is their attempts to reduce the stigma associated with financial hardship. This is important because if you stand back from this, it is in Aurora's best interest to engage with customers who might be having difficulty in paying and it is in the customer's best interests because often if you get together and talk through the issues you can find ways to reduce cost pressure from the consumer's perspective and then ensure that Aurora is getting payment. This is a very significant initiative from Aurora.

Mrs HISCUTT - Talking of community support, everywhere you used to go, at footy games, there was always the 'sponsored by Aurora'. With the new leaner company is there a comment to make on community support?

Mr GROOM - Yes. This is another area that has been very pleasing in terms of the shift of focus. Aurora is very much focused now on grassroots community organisation sponsorship. They still have the Aurora Stadium, under an agreed arrangement, but more broadly they have shifted the focus to grassroots community-focused organisations.

Mr WILLIS - Exactly that, and Rebecca knows the detail of them.

Mrs KARDOS - We have gone through and done a systematic review of every aspect, sponsorship being one of them. We have already very high brand awareness. Everyone knows Aurora, even though we are still referred to as Hydro bills. Everyone knows about Aurora Energy and in reality TasNetworks was the entity with the new branch and we have allowed them to get on with getting people to understand who they are and what they need to do. We do not really need to deal with that. In terms of our sponsorship activities we are focusing on grassroots and that community base. What can we do to tangibly make a difference within a community and smaller communities?

We still have the Aurora Stadium contract but what we have done with that is acknowledge that shifting in our sponsorship and community partnership has refocused how we use that sponsorship. For example, for the last two games of the 2014 season, we took the financial counsellors from Anglicare to the footy. We hosted them. We did that for a number of reasons. First, we have a very strong working relationship with the financial counsellors at Anglicare. We drive a lot of their work because that is part of our offering to customers who are in financial hardship with that financial counselling service. We are a referral service for them but also it was

a way of thanking them and engendering that partnership arrangement we have with them because we are a participant in that sector and we have an important role.

The second game, the last game of the 2014 season, we took, through Carers Tasmania, a bunch of carers out to the footy, hosted by us. They do not get that opportunity and it is our way of giving back. The seats we have in the stadium, as part of our sponsorship, we gave them to Variety and to children with disabilities. Everyone loves going to the footy, so we provide them that opportunity and leverage that ongoing sponsorship.

CHAIR - There is a raft of issues to go through. We need to be succinct on both sides of the table.

Mr MULDER - At the risk of running foul of the Chair, I am wondering why you are here, minister, and not the Minister for Human Services, given all this wonderful material?

The new Aurora, 1 July this year, what do you do?

Mr GROOM - Retail electricity to Tasmanian consumers in a focused, cost-efficient manner.

Mr MULDER - You are sellers of electricity? You are not the generators of electricity? You are not the transporters of electricity? You are managing the customer?

Mr GROOM - Yes.

Mr MULDER - Do we need an entire GBE to do that?

Mr GROOM - I think so. We can have this debate about where the market has gone to. We are part of the national market and we went through a process of disaggregation. It would be a very significant thing to try to cobble that back together. We have recognised some efficiencies in moving the distribution arm into TasNetworks. That has been a very sensible move. But the focus of a retail business is different to the generation side and that is the structure of the market. We do not have any current plans to roll it back in.

Mr WILLIS - I will add one point. The company has been scaled to its new remit at every level. The constitution has been changed to reduce the number of directors to a maximum of five and presently we have four, including the chief executive, on the board. The board is smaller and contained. The senior management team is similarly smaller and contained. It is a state-owned corporation and it needs to be as it still has a billion dollar turnover. This is not a small company in financial terms but everything we can take advantage of in the smaller scale has been pressed down.

Mr MULDER - I take it the potential sale of the customer list is still on the table?

Mr GROOM - Yes. We discussed that briefly earlier. The Government is still of the view that over the longer term, competition in the retail sector of the market will assist in delivering the lowest possible, sustainable power prices and, in that sense, we are open. We have continued to have discussions with other retailers in terms of identifying what barriers there may be to their entry into the market. But we are not going to act in a way in which is not in the best interests of Tasmanian power consumers. The previous government had pre-committed to a sale in a fixed time frame. We are not going to do that. We are open and if the circumstances are such that it is

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appropriate and in the best interests of Tasmanian power consumers that there be a sale of the customer list, then we will be open to that.

In the meantime, we are very focused on working with Aurora to be as efficient as it can possibly be to be well set up to operate as a competitive company in the retail segment of the market and deliver good outcomes for power consumers.

Mr MULDER - If someone turned up tomorrow with rivers of gold in a little bag, handed it to you and said, 'We are ready to buy your customer list' - two bags or 10 envelopes, no doubt plain envelopes that would be unaddressed. The point is though, if you sold it tomorrow, would we still have a GBE called Aurora?

Mr GROOM - Not if we sold the whole thing. We are open to it. The driver for us will be the best possible outcome for the power consumer, and that is why we are not pre-committing with a time frame. I think that was the mistake that the previous government made. It put itself into a compressed time frame and probably at a point of time where some of the national retailers that may otherwise have been interested were distracted or just not in a position to act on the opportunity. We are not going to create an artificial time constraint, but we are open to opportunity.

Mr MULDER - So you are in the business of selling electricity?

Mr GROOM - Yes.

Mr MULDER - This is Aurora, are you also then in the business of buying it in at wholesale prices in order to sell it at retail prices?

Mr GROOM - Yes.

Mr MULDER - Where I am heading with this is, what is the wholesale price you buy the electricity from and who is your main customer?

Mr GROOM - I might get Geoff or Rebecca to talk to this. This has been one of the significant developments for Aurora.

Mr MULDER - Sorry, I am just asking -

Mr GROOM - No, no, they have substantially -

Mr MULDER - A business exists for one purpose - to sell stuff. In order to sell stuff, you either have to make it or you have to buy it. In your case you are buying it. That is what I am tracking down - the business, not the political level.

Mr WILLIS - Rebecca can deal with it in detail, but there is only one supplier in Tasmania, which is Hydro Tasmania. However, part of the reform of the sector was to put in place a regulatory framework for the wholesale market so that there would be some bounds around the way that Hydro made their offers and what products were available to us. From that point Rebecca picks up with her management team as to how we buy from Hydro.

Mrs KARDOS - We have a wholesale energy strategy which takes into account that regulated wholesale instrument and ensures that we can secure the best price for our customers whilst also

managing the wholesale risk and exposure because there obviously there are market arrangements around that. We have also done a full review on our wholesale energy strategy that was approved early in March this calendar year, where we are taking a prudent risk approach to our wholesaling energy strategy, but also making sure that we are still buying energy at a price that is price-competitive as we do have competition in large and small business customers.

Mr GROOM - One of the things that is significant with Aurora now compared to previous times is that, through the process that Rebecca has just referred to, they have materially de-risked their exposure to wholesale prices. That has enabled the company to operate in a way which delivers more predictable outcomes and that is great for the consumer.

Mr WILLIS - Perhaps one more point - we have also outsourced the function of the trading desk. To have energy traders requires quite a bit of infrastructure within the company and we have found a supplier of this so we have been able to outsource it again. Again, as in my earlier remarks about making the costs of the company as variable as possible for the future, we have made that arrangement: both a de-risked portfolio of energy purchases and a low-cost solution to how we manage that risk.

Mr MULDER - Is there any scope within Aurora, being a retailer, to perhaps source its product from other suppliers if they could meet a competitive price? It is a bit like Harvey Norman, for example, a retailer, and they are happy to switch the products depending upon who sells them at the best price.

Mr GROOM - I will let Geoff make some further comment, but it is fair to say that at the moment we are delivering good outcomes for power consumers.

Mr MULDER - Business by nature is competitive and, if you are competitive in what you sell, you also have to be competitive in what you buy.

Mr WILLIS - This is drawing a little bit of a long bow, but for Tasmania the electricity market has one supplier, which is Hydro, so we need to manage the way we deal with that. However, a very important part of the cost structure for any retailer is renewable energy certificates, which is a national market. In the case of buying our renewable energy certificates, we take exactly the approach you are saying. We look very widely and buy from all and sundry.

Mr MULDER - Which is an interesting point. You are in the market and you claim you have one supplier, but you do not; you have a huge range of people with solar panels on their roofs who are selling electricity to you. If you have a sole supplier such as Hydro, what is the wholesale price you have from them? You are a business, are you in the capacity to say to Hydro and the other energy producers, be they coal or whatever on the mainland, 'Can you supply a product to us at a cheaper rate than Hydro Tasmania?' It is interesting to see a business which is locked in to a single supplier at a fixed price.

Mr GROOM - I am certain we are getting the best outcome, but I am happy to hand over to Geoff to reply.

Mr MULDER - I am sure Joseph Stalin said the same thing when he collectivised the agricultural farms. We are talking about free enterprise here, not centrally controlled command economies. If you want to be a business, you need to operate in the free market and part of the free market, I would suggest, minister, is that you are able to choose the source of supply based on price.

Mr GROOM - The key is good outcomes for the power consumers, and I feel satisfied that is what we are doing.

Mr WILLIS - There is a regulatory framework for this wholesale market which requires Hydro to offer products. We still have quite a technical job to do to choose which products we buy, at what time, at what price, for what length of time, to make up our book to match our customer needs. It is quite a sophisticated marketplace even though there is only one supplier. There is only one supplier because no other energy generator in the country is prepared to take Tasmanian market risk because this is a jurisdiction within the national market. The game is not perfect because there is only one supplier but the way the regulatory instrument works is that it forces Hydro to offer variously and it allows Aurora to select from those offerings to match its book.

[10.00 a.m.]

Ms KARDOS - It is probably important to note that that regulated wholesale instrument is linked to the Victorian future price, which obviously has much broader wholesale generation needs, so those prices are seeking an inner competitive market. It is making sure that those prices are reflective of a competitive market.

Mr MULDER - What are the wholesale prices that you pay to Hydro today?

Mr WILLIS - It varies.

Mr MULDER - I am happy with per kilowatt hour rather than by electron.

Mrs KARDOS - It ranges and it can fluctuate anywhere but on average it is around 50 cents per kilowatt hour but that changes on a 30 minute interval. In discussion towards what are our energy choices for foreign energy, so of the 9 000 gigawatt hours that we effectively purchase per annum - predominantly that is off the market - which is Hydro.

Last year we also purchased 44 gigawatt hours from Better Generation. This is PB on homes because as the standard offer retailer we are required to purchase that energy at what the Tasmanian Economic Regulators deem a fair and reasonable rate.

Mr MULDER - What is the price for the solar feeding?

Mrs KARDOS - I think it is 55.5 cents at the moment.

Mr MULDER - And you can buy it from Hydro at an average of 50 cents. During the daylight hours, when you are compelled to buy this energy at 55.5 cents an hour, what is the Hydro price for generating electricity in that day-time gap?

Mrs KARDOS - There are a number of factors that vary the price. It might be worthwhile if I get someone -

Mr MULDER - Sorry - three o'clock in the afternoon on a sunny day, your demand is fairly low. It is probably being over-met by all the people with solar panels. I am wondering -

Mr WILLIS - If the point of your question is to ask is it less than 55 cents, the answer is yes, but exactly what it is, we do not -

Ms FORREST - Not always. There may be times when all the air conditioners are turned on in South Australia - it hikes it up.

Mr WILLIS - Yes, there might be a few days of the year where it is not but almost always.

Mrs KARDOS - The peak time in Tasmania is cold winter mornings versus South Australia which is 40 degree celsius, sunny day, when we are all running our air conditioners - that is a key difference.

Mr MULDER - What I am getting at is a market pays for products and here we have, basically, a set regulated price, a regulated purchase price, a regulated selling price and we are talking about solar power. In a pure business sense, is Hydro remotely interested in people generating electricity on their roof tops?

Mr GROOM - Are you talking about Hydro, itself?

Mr MULDER - No, I am talking about Aurora in terms of purchasing electrons.

Mr GROOM - I think it buys power at the best price possible, factoring risk.

Mrs KARDOS - The key value for a customer in putting solar photovoltaic on their roof, or any form of embedded generation, is how that can then negate and avoid the consumption within the home. The primary benefit for putting solar on your roof is off-setting your consumption - the amount you need to export off the grid. For those periods of times where you are producing more than you need in the home, you can import it back into the grid and we will buy it. So we have effectively created a market. But the primary benefit for most customers is off-setting energy within the home and reducing their Aurora energy bill.

Mr MULDER - I have a few on my roof. What I am trying to get at is from a business perspective. If someone is in a business of buying material, I am wondering what business benefit there is in you being forced to buy my surplus electricity?

Mrs KARDOS - The business benefit of embedded generation is it provides customers with a choice. It gives them the choice of how they want to source their energy needs. That is why we are seeing such high penetration rates, nationally, because customers finally have gone from saying, 'I'll either buy it from this person here or I can put in embedded generation' - and I'm not sure what the decision-making you made was when you put PV onto your roof but I would hazard a guess it was about -

Mr MULDER - I am happy to say I acted in a pure business sense and it was absolutely wonderful that I could buy something and have a forced customer for my outputs in my business. Why would Aurora be remotely interested in being forced to buy something they do not need from their customers? Minister, I am asking you. We are talking about business enterprise here, not social policy. If you are going to be a business and you are going to have a board, you should take the handbrake off this business enterprise and allow it to operate in the market and buy its products at the best possible price and sell them for what the market can bear. Anything else is not a business.

Mr GROOM - I do not think anyone would suggest the policy framework, in which feed-in tariff arrangements emerged nationally, is completely pure. It was driven by people. People wanted

choice. They had a sense of self-empowerment and governments, nationally, responded to it. What the previous government focused on and what we have done, is to seek to make sure those tariff arrangements are fair and reasonable. That is the process we have now in Tasmania where the Economic Regulator determines the fair and reasonable tariff and the tariff going forward is the one Rebecca has referred to. That was the outcome of the Economic Regulator and we think that is a reasonable outcome. It was driven by consumer desire and a sense of empowerment.

Mr MULDER - From a business perspective, would it not be the case where you could choose who your suppliers are, rather than being forced by government policy to decide who your suppliers were and at what price they sold their product for.

Mr GROOM - There is an obligation on government with these things to make sure people who have invested, do not have that investment ripped from underneath them and that was part of the Government's response. Also what we sought to do was to make sure there was a fair and reasonable tariff. That is what sees the adjustment in the feed-in tariff. That is determined by the Economic Regulator and I am satisfied that assessment is fair and reasonable.

CHAIR - We have been down a particular line of questioning and the point has been made. Other members have questions.

Mr MULDER - Has it been made, Chair?

CHAIR - We can only go for so long on a line.

Mr MULDER - I am trying to get some feedback as to whether we made a point.

Mr FARRELL - Minister, there was some media recently about the expenses relating to staff training and I think it was \$93 000 over five months between April and August and, at the time, I believe you expressed some concern about the cost. Why were the costs for staff training in this period seemingly so excessive?

Mr GROOM - I think you are referring to some expenditure of TasNetworks which is a separate business. The Government had expressed its concern from the perspective of making sure we have prudent decisions being made. We recognise the importance of investing in people, including leadership, but it is important that costs are prudent and defensible in the context of the broader environment. That is what Tasmanian expect, that is what the Government expect and we have made that clear to all the GBEs. But I think you are referring to a TasNetworks one.

Mr WILLIS - I think that specific one was TasNetworks.

Mr FARRELL - That was not in relation to the splitting up of the organisation?

Mr WILLIS - It was after the split. It was about bringing the two companies together, the distribution and the transmission companies.

Mr GROOM - The TasNetworks.

Mr FARRELL - Yes. Are there any plans within Aurora for staff training and what type of training will you be undertaking given that you are changing direction somewhat?

Mrs KARDOS - As we said before, we have 165 employees. The majority of those are in frontline roles - customer service roles. We have two contact centres; one based in Launceston and one in Hobart. Obviously we need to keep them trained so they can provide our customers with the services that our customers expect. We are a small business so we have been reviewing how we do training and on-boarding. In contact centres you tend to have a high turnover rate. Understandably, there is only a period of time that you want to sit on a phone and take calls from customers.

What we have done is look at improving our on-boarding. When a new employee joins us they join us through the contact centre so they get exposure to what the customers' expectations are. They learn the fundamentals of our business. Our customer care and billing system is a critical element of that. They understand how we do business at Aurora. They understand the various products, the market, what the customer needs are, the specifics of various product elements - for example, pay-as-you-go, which is unique to Tasmania. We do that through our induction and on-boarding and then we support that.

Just like any other business we have other discrete areas where we will provide training where it is warranted and we will get business value. That is the key thing for me. It is not training for training's sake. I think you can get into using that as staff retention. From my perspective it is where training is warranted and will see a business benefit, whether improved productivity, improved customer service outcomes or a reduction in our operating costs. They are the three key factors we take into account for training. In answer to your question, yes, we will continue to ensure we train our workforce.

Mr FARRELL - Just in regard to pay-as-you-go, there have been some concerns whether it was going to continue or be modified. What are your plans for pay-as-you-go?

Mrs KARDOS - It is probably fair to say that pay-as-you-go is at a difficult juncture in its life. We have 30 000 customers. Some of those customers love the ability of not having to interact with their retailer. I appreciate and empathise with that; they love the control that it gives them. The underpinning infrastructure is at end of life, which means we need to make some decisions on where we invest or where we do not. What we are looking at doing in terms of the pay-as-you-go product is how can we enable those customers who value the autonomy and freedom that pay-as-you-go gives them without all the underpinning technical issues that we have?

Over the next 12 months we are doing a full review of the pay-as-you-go product, understanding what the customers value and need, and then putting together and developing a new product to meet those needs. It may end up being that some of those customers are more than happy just to go on to a standard bill, but use our e-billing online billing function. Or we offer a prepayment service, which is effectively pay-as-you-go, where you pay in advance for your energy. It has the same look and feel as pay-as-you-go and you still have that same autonomy and control. That is a key focus of our activities over the next 12 months because we do have to make a decision with pay-as-you-go.

Mr FARRELL - Is it still cheaper to send meter-reading people out to read meters than to have these machines that manage their own accounting? Is it still more efficient to do that?

Mrs KARDOS - TasNetworks read pay-as-you-go meters quarterly, just like a standard post-pay account product. The efficiencies are not in metering costs, but more around the product servicing what the customers' needs are. In terms of the cost of operating pay-as-you-go, part of the review is looking at whether pay-as-you-go is a cheaper or more expensive alternative. To be

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honest I do not know the answer to that question at this moment. What I do know is I have ageing infrastructure, my costs are increasing, so we do need to make a business decision on how we replace that product whilst ensuring we have minimal impact on those customers, especially the ones who really value the autonomy and freedom that product provides.

Mr GROOM - That is the key, to make sure that consumers are getting the products they want. There is a feature of pay-as-you-go that has hit a chord, so what Rebecca is very focused on is finding a way to satisfy that demand.

Ms FORREST - Rebecca said that TasNetworks read all the pay-as-you-go meters; do they read all the meters?

Mr GROOM - Yes.

Ms FORREST - That is no longer with Aurora; it is all with TasNetworks?

Mrs KARDOS - Yes. All the poles, wires and reading of customer meters - those obligations are with TasNetworks. Then they put those readings into the market and that is what we then bill customers from.

Mr FARRELL - That is charged through to you, is it, that service of meter reading?

Mr WILLIS - It does.

Mr FARRELL - Pay-as-you-go?

Mrs KARDOS - They pay in advance. Then we receive a reading from TasNetworks, which is what they bill us from.

Ms FORREST - So part of that is the amount they charge to do the work?

Mrs KARDOS - Yes.

Ms FORREST - Part of the bill you get from TasNetworks includes their reading charge as well as how much the consumption is?

Mrs KARDOS - Yes. The actual reading cost is embedded within their use-of-system charges, so we pay a network use-of-system charge, which includes the reading. If we get them to do a special read, for example, that is an additional charge and we will pay for that in addition to the standard. The standard quarterly read is embedded in the network charges.

Mr FARRELL - Ownership of the pay-as-you-go meters is with TasNetworks?

Mrs KARDOS - They actually own the physical meter. The Payguard unit, which enables the prepayment, is owned by Aurora.

Ms FORREST - If I am moving house and want to have a reconnection, who do I talk to now?

Mrs KARDOS - You ring us.

Ms FORREST - These are the sorts of questions we get in our electorate office all the time.

Mrs KARDOS - I understand. We are the customer face for the electricity supply industry in Tasmania, so if a customer wants to move house, disconnect supply, reconnect supply, have a query about their bill, they ring Aurora Energy. The primary time you ring TasNetworks is if a tree has hit the poles, or you have a safety concern about your supply, or you are without supply. You can still ring us, but you are probably better off to ring TasNetworks directly, especially if it is a safety concern.

Mr FARRELL - You do not ring the Hydro at all for anything?

Mr GAFFNEY - Going to the CEO's report, on page 8 it was mentioned that there were three significant public safety incidents in the last 12 months; fortunately no-one was hurt. A steel fence near a public walking path was energised. It did say that the three incidents were investigated. Were the incidents as a result of individual mismanagement and/or error, or was it a process? It says 'processes are put in place to minimise the chance of it happening it again'. Was it a human error, not following correct processes, or were the incidents related to not having the correct processes in place in the first place?

Mr WILLIS - I need to take this question because it all happened before Rebecca came to Aurora. I do not remember them exactly.

Mr GAFFNEY - They are mentioned on page 8 - 'Unfortunately we recorded three incidents'.

Mr WILLIS - Yes, I remember them. The steel fence was almost in your patch near Deloraine. I think all three incidents were process-driven and not people arrangements. I do not remember any people within Aurora being counselled or instructed differently about this. They were process matters. They were all closed out because we have a very thorough system for reviewing both lost-time injuries and these special incidents. The ones which were not closed out by 30 June - which I think all of these were in a practical, ongoing sense - were all handed over in detail to TasNetworks at 30 June.

This is part of the continuous improvement. We see things that are not working as they should, we bring them to the attention of the senior management and the board and we have processes to work through and improve the routines.

Mr GAFFNEY - Okay, and it states '... and processes were put in place to minimise the chance of these types of incidents occurring again'. From our point of view, sometimes you will see that written in a report and it just covers it, and you really want to understand what those processes have been and that they have actually attended to the situation, especially with an outgoing Chair's report.

Mr WILLIS - I will give you a very firm assurance of that although I do not remember those three cases exactly, but for all of the cases raised we have something called 'root cause analysis'. Separate from the people who are involved, the team evaluates the incident, determines what the root cause of the problem is, and then recommends the changes in process and they become accepted into the way of doing things.

Mr GAFFNEY - My other question is on the environmental regulation on page 27. It mentions that there were no environmental notices served in the last 12 months, either prosecution notices or fines. It then goes into environmental incidents: 'Reports are also made in relation to oil spills,

incorrect disposal of waste, licence exceedences, and impact on threatened wildlife species', so there are obviously some environmental incidents from those being sent off to DPIPW. There was no cause for complaints, fines or prosecution or anything further?

Mr WILLIS - No.

Mr GAFFNEY - In annual reports, do you make a list of those reports that were made? I could not find it anywhere.

Mr WILLIS - We had a clean sheet on this for 2013-14. My recollection is that the last one of those incidents was in regard to the stumps of the power poles after the fires at Eaglehawk Neck. We did not dispose of the stumps correctly because they had been treated for pest invasion, and we should have had a separate way of treating them. That was an incident and we corrected for it.

Mr GAFFNEY - I am not sure whether you answered this before but one of the questions that came from the CEO's report was where it says, 'The Tasmanian Economic Regulator reduced tariffs to customers by 5.22 per cent on 1 January 2014 and a further 7.8 per cent from 1 July'. Are there likely to be further reductions, or do you not know how the Regulator thinks or is going to assist? They are significant in a six-month period; that is a reasonably significant decrease. Is it likely that they will decrease again, is that your understanding?

Mrs KARDOS - There are a number of factors that the Tasmanian Economic Regulator takes into account - wholesale energy cost, distribution and transmission costs, renewable energy certificates and ours, and so the standing offers are based on the maximum allowable revenue that as a retailer we can tap. When you look at those individual costs and the AER announcement that on the transmission costs there is likely to be a \$10 reduction - I think it was in the media last week - we may see another slight reduction. If I was a betting person I might suggest that is the case. I do not know accurately but I think what we have seen is, the wholesale cost is linked to the Victorian futures market. If you look at that market, the price is staying around the same current levels as it is now, so we might see a tiny movement in that.

We will see a small reduction in the network costs as a result of the AER Regulator's determination that was announced last week. As to our costs, there is no change there. If we do see a reduction, though, I do not think it would be anywhere near the same percentages as we have seen on 1 July, which was predominantly driven by carbon, or on 1 January - they will keep the same or slightly different.

Mr GROOM - The key here is that we are moving in the right direction. There have been some significant increases this year, and from the Government's perspective to the extent we can influence outcomes to put further downward pressure, we will. That is one of the reasons we are working with Aurora Energy to keep its cost management low. We are also working with the other businesses to do likewise. There was a pleasing announcement in relation to the transmissions cost. It was only a small reduction but a reduction, which is in contrast to where we have been in more recent years. I believe the profile is heading in the right direction but the Government recognises we have to continue to do all we can, to the extent we can influence it, to put further downward pressure on power prices.

Ms FORREST - I have a couple of areas I would like to go to. You have put in a new set of key performance indicators. I am sure you are aware of the Auditor-General's comments on the need to focus these a bit more on outcomes rather than just outputs. For example, the first under

the section to 'provide consistent, proactive strong customer service linked to customer value' - you are measuring the percentage of calls answered within 30 seconds, with 70 per cent as the target. You can answer all the calls you like but if you do not get an outcome at the end of the call that means nothing. Will you improve those performance indicators to indicate outcomes from those - counting how many customer complaints or issues were resolved within a day, for example? The next one says 'a number of complaints' - you have a target for quite a small number of complaints, which is good, but if they are not resolved then the complaint continues. We need to focus more, as the Auditor-General suggests, on meaningful output KPIs, not just counting things.

Mr GROOM - I certainly take your point about the KPIs. From my perspective, Aurora has shown itself as being a company that is focused on the consumers' outcomes.

Ms FORREST - We need to read those in the annual report.

Mr GROOM - I understand the point you are making.

Mrs KARDOS - I believe you make a good observation there. One of the initiatives we have underway that we can include in this financial year - if we do not have the measurement instrument so there is no point - is measuring how our customers value us and how satisfied they are with us. There is a number of measures that enable you to do that and benchmark yourself against other retailers. We have a Voice of the Customer program that commences in January and that program will give us direct feedback by service area on what our customers think and whether we have resolved. Complaints give you some visibility but some customers are dissatisfied but do not complain, so we want to get a better understanding. If you are dissatisfied, what is driving that dissatisfaction? What can we do to improve our service? Our ultimate goal is to be valued. Greater service is just answering calls. Have we answered those calls in a manner that is helpful, and have we made it easy to interact with us? Have you been satisfied with the outcome? They are the questions we will be asking as part of this Voice of the Customer program so we can measure the outcome, not necessarily the output.

Ms FORREST - I look forward to the NBN's report because they have asked me a number of times - it wouldn't have been good. I can say that quite honestly, they are terrible. It is unbelievable. If you want a bad example, that is where to look.

Your profit and loss in your annual report includes \$80 million loss on derivatives and the note at the top of page 45 indicates a realised loss of \$79 million and that is, as I understand it, from 26 September 2013 with the previous derivative trading hidden in energy purchases. What happened to the first two months of the year, and in the previous year, and what position did you hedge that appears to have turned out badly with that loss?

Mr WILLIS - First, there was no loss. The treatment of the electricity derivatives changed at the point we were no longer selling the business so we had to do a market to market at that point. The company had its books set on the basis that the customers would be sold and we had to reset to be the new smaller retailer. It was a point where the bookwork was not crystal [10.31.25] to make a loss but it was a different accounting treatment required.

Ms FORREST - Does TasNetworks now hold the other derivative contracts or what happened with those?

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Mr WILLIS - The accounting treatment only was transformed. The electricity derivative, fair value movement of \$79 million, should be seen as a fair value movement for the change that was made, not a loss.

Mr GROOM - I think the question is, where does the contract sit?

Mr WILLIS - The contract sits between Hydro and Aurora.

Mr GROOM - Continues to sit with Aurora.

Mr WILLIS - They sit between us and Hydro.

Mrs KARDOS - The electricity derivatives is how we purchase wholesale energy.

Ms FORREST - What are the contracts now that exist just with Hydro? Is that the only one?

Mrs KARDOS - We have a range, not just one contract. We have a number of electricity derivatives with Hydro and when the business was for sale, the accounting standards required us to treat those derivatives in a different way to what you would normally treat them if you were an ongoing business. What that \$79 million is showing is that the accounting standards require us to represent it differently within the statement of accounts than you would normally do. That is why it is different than previous years.

Ms FORREST - When was it taken off the market?

Mrs KARDOS - It was 26 September 2013.

Mr WILLIS - If the business was always intended to continue, the number above that in the report, the \$681 million, would have included the \$79 million.

Ms FORREST - Hence the difference from 2013-14?

Mr WILLIS - Yes. In 2013, there was no idea of change at that point. \$1.63 billion for purchases and these two numbers would have been together, \$681 million plus \$79 million, except for the accounting treatment required because we changed the position from selling to continuing.

Mr GROOM - It was an accounting treatment not a realised loss.

Mr WILLIS - Yes.

Ms FORREST - Going to your cash flow statement, there is a payment for intangible assets under investing, \$31.5 million. Note 12, on page 54, talks about computer software and there was \$41 million of extra software which would indicate \$10 million must be non-cash. Is that right? Was it in-house or in-kind, or still in payables, or what accounts for that difference?

Mrs KARDOS - We will need to take that on notice because I do not know the answer off the top of my head.

Mr WILLIS - I only know the nature of the work that was done. I do not know the difference.

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CHAIR - You can take that on notice.

Mr WILLIS - Yes, we will be happy to provide that.

Ms FORREST - With the computer software, and we had this discussion before your time, Rebecca, when the cost of the billing system blew out like nobody's business. Unbelievable. You have almost \$177 million for computer software. Does that reflect that total spend?

Mrs KARDOS - That is what has been capitalised as an asset. That would not all be Oracle CC&B, that would have been all intangible assets of both the Aurora distribution business and the retail business. I can tell you what -

Mr WILLIS - Could I repeat that while Rebecca is looking for that. The accounts at 30 June was the combined Aurora and the distribution business, so the software is not just the billing system, but is also the systems in place for TasNetworks.

Ms FORREST - Some of that would have gone.

Mr WILLIS - Transferred, and Rebecca will tell you what our number is.

Mrs KARDOS - Aurora has \$26.4 million in terms of intangible assets as of 1 July as a result of the transfer of assets.

Ms FORREST - The rest has gone to TasNetworks.

Mr WILLIS - The \$16 million billing system of Aurora, as you referred to, has been written down.

Ms FORREST - The written down value, all up, is \$108 million there. That includes not just the billing, but the other distribution software.

Mrs KARDOS - All the market systems that TasNetworks would have as well, to operate their business, that they require for performing their functions as a distributor.

Ms FORREST - All Aurora is left with then, is the billing system in that software; is that all?

Mrs KARDOS - Billing system, yes, primarily, and we also have the Pay As You Go. There is some software around there and some other odds and sods, but our primary system is our billing system.

Mr WILLIS - All of the administrative systems were also transferred to TasNetworks because today Aurora receives under a Service Level Agreement from TasNetworks, the accounting, the payroll and various other services because that was all transferred into TasNetworks.

Ms FORREST - What would you say - and you may or may not have this figure, Rebecca - is the written down value of what Aurora currently has now?

Mrs KARDOS - Of systems, would be \$26.4 million.

Ms FORREST - That has been down valued.

Mrs KARDOS - And appears on the balance sheet today.

CHAIR - One of the very topical things, minister, was the payout for Peter Davis, the former CEO and to many people that seemed excessive. I realise that \$2 million would consist of two or three components in terms of some superannuation and that sort of thing, but would you not agree that to the Tasmanian public it did seem excessive? The questions are, when was that contract renewed, what date and what time?

Mr GROOM - It is fair to say the Government had some real concern about this. It is hard for Tasmanians to understand these sorts of numbers. We are dealing with very senior executives and it was in unusual circumstances, but nonetheless the Government has reaffirmed our commitment to making sure we get prudent and defensible outcomes when it comes to remuneration outcomes. We have been undergoing some further review of the remuneration guidelines. That includes new arrangements in relation to termination payments which would effectively mean that the exact arrangement that was in place previously could not happen into the future.

We have also been emphasising the importance for there to be appropriate scrutiny and oversight arrangements in that regard and then also appropriate disclosure. Again, there are some new disclosure requirements that are in place. This is an ongoing engagement that we have with the company. From our perspective we need to make sure we are getting prudent outcomes, so we have to recognise that we are dealing senior people but they need to be appropriate and defensible. That is something the Government has been very keen reaffirm with the company.

Mr WILLIS - All the details are set out on page 65 of the report. This is a fulsome disclosure. I think the amount which you are referring to comes under the termination benefits. I do not use your word of 'excessive'. I certainly say 'substantial' and I would like to provide a little context for that.

The termination benefits comprise two parts. First, a redundancy amount which relates to the length of service, because this executive had been employed by the company, and before that by the Hydro, for 24 years. Twenty-four years ago when that person signed on with the Hydro this was the redundancy number of weeks for years of service which was in place at that time. This is very much a legacy issue and that is right back to the time of his appointment.

The second element of this is a one-year severance payment which occurred at 30 June - one year of base salary. This occurred and was put in place when the reform was announced and informed to the company in May 2012. At that point the contract for this executive had a 12-months notice period included. It was convention within the company that on termination by way of redundancy people would be paid their notice period and their years of service. This was the convention.

The board, and through myself, formalised this arrangement at that time to say that we would pay the notice period should the chief executive remain with the company throughout the period until 30 June and be made redundant, because at this point we did not know whether he would be made redundant or would have a new role somewhere within the electricity group. We varied that contract.

The 12-months notice period was in place for many years because this was a remuneration package which was benchmarked by Mercer, a consultant company, both as to its magnitude and

the individual components. This is what a chief executive in the National Electricity Market would expect to have as a package that was in place. We varied it such that at any time during the final 12 months we could terminate the contract with the chief executive and only for this amount to be paid. We could have terminated his contract at any time.

However, with the abandonment of the sale we needed all the management team because the work that had to be done during that two years was to separate the Tamar Valley Power Station, close down the national market for the retail business, prepare TasNetwork's business - the distribution to be transferred - and sell the company, so Aurora would have disappeared and the retail business would have been sold back in September. However, it did not transpire that way. It was not sold and we required his service and a number of other senior executives right up until 30 June, at which time he became redundant.

The amounts were consequential on contract arrangements in place long ago, which were refreshed at the time the substantial work of the reform had to be in our sights, and needed to be paid because we needed these people right until the end.

Mr MULDER - With respect, one of the questions the Chair actually asked was had the contract been renewed in the period we are talking about, and if it had been renewed what part of the redundancy package related to, as a lot of these packages do, the unexpired portion of a recently renewed contract? That is what the Chair asked. I gathered between the lines that the answer is no, none of the above, but you actually need to spell out that the redundancy payment had nothing to do with a recently renewed contract.

Mr WILLIS - Thank you.

Mr GROOM - From the Government's perspective, we are concerned about this. We have expressed our views to the company. We are having ongoing discussions in terms of the broader remuneration guidelines to make sure we are delivering outcomes that are prudent and defensible. It is very important we understand that we all operate in a certain context, so we have had that discussion with the company. The company has indicated a strong commitment going forward to work with the Government strongly in that regard.

Mr WILLIS - We do have guidelines issued by Treasury in relation to remuneration, termination payments and so on. It is noted here in the report that the new management team within Aurora has all been put together on the basis of those guidelines. This is a matter which has passed and is a consequence of having a very substantial company transformed into a very small one, and done in quite a good and measured way.

CHAIR - When was the contract renewed?

Mr WILLIS - The contract was not renewed but this particular clause about a termination arrangement was refreshed, I would say. Everything else was in place, but the convention had been that the notice period would be paid. We formalised that simply with a letter. That happened at the time the reform was announced two years ago.

Mr MULDER - I wonder whether 500 public servants think that their career lifestyles are being 'refreshed'?

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Ms FORREST - With the transfer of assets to TasNetworks, did the impairment need to be recognised by TasNetworks for some of the impaired assets that were transferred? I have not look at their finances; I have been too busy looking at these ones.

Mr GROOM - Are you talking about the billing system?

Ms FORREST - No, assets that were transferred.

Mrs KARDOS - My understanding of the transfer notice, the mechanism of the assets and liabilities distributed between Aurora Energy and the new TasNetworks, is that as of 30 June, we clearly detailed what assets were there and which assets and liabilities were transferred to the new TasNetworks. There would have been - and correct me if I am wrong, Chairman - at their book value at that point in time.

Mr WILLIS - I could add one small detail. The way that Transend valued its assets and the way Aurora valued its assets were different accounting projects. When they came into the new company, the board there had to decide on one accounting approach, and that is what triggered the impairment, not the 30 June numbers that were there before us.

Ms FORREST - The accounting requirements and standards always keep changing, don't they. Were there any liabilities transferred from TasNetworks that need to be revalued, as in the case of the contracts with the Tamar Valley power station when they were transferred to Hydro Tasmania? That cost quite a bit and increased Hydro's liability significantly.

Mrs KARDOS - Effectively the entire debt book transferred to TasNetworks because they were associated with the infrastructure that TasNetworks owns. I am not aware of any change in how that has been treated - that is probably a better question for TasNetworks - since the transfer. They would have been transferred at midnight on 1 July, so that would have been based on the balance sheet we had at that time.

Ms FORREST - After the transfer Aurora has ended up with no debt?

Mrs KARDOS - That is correct.

Ms FORREST - How is the superannuation liability split? Surely there would still be some liability there.

Mrs KARDOS - In the transfer notice it was agreed that Aurora Energy would continue with the superannuation liability, for those employees who have that liability, on 1 July. Of those 165 employees we mentioned before, for any of those with a superannuation liability we have retained that.

Ms FORREST - Do you have a figure for that?

Mrs KARDOS - No, I would have to take that on notice. I do not know that off the top of my head.

Mr WILLIS - Chair, we have a balance sheet for Aurora at 1 July which could be interesting to include.

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Ms FORREST - Not in here.

Mr WILLIS - No, it is for our management purposes. It could be interesting because we have to write to you to answer the question about intangibles. We could also include that.

Mrs KARDOS - We could include the entire new balance sheet. You are right, the annual report does not reflect the balance sheet of the new Aurora Energy business so it is somewhat confusing.

Ms FORREST - With regard to your receivables - and we have had a discussion about being nice to the people who are having problems paying and trying to assist them - were some of them are quite outstanding in time, and who got the receivables? Are those customers all Aurora's?

Mr GROOM - That would be Aurora.

Ms FORREST - Are there any other outstanding receivables that were transferred to TasNetworks?

Mrs KARDOS - TasNetworks would have received a proportion of the sundry debtors, so there are receivables that would have been associated with the distribution business which would have been transferred on 1 July as well, but the bulk of them have remained with Aurora Energy because we have the bulk of the customer book. Unfortunately, some customers have not paid their bill in full for a period.

Ms FORREST - There are still significant numbers greater than 180 days.

Mrs KARDOS - That is correct.

Ms FORREST - That is a number of dollars.

Mr GROOM - That number has come down quite significantly though.

Ms FORREST - It has reduced, I accept that.

Mrs KARDOS - At the beginning of 2013-14 we had roughly around \$31 million in moneys owing from customers. That number at the moment is around \$19.8 million. We have been putting a lot of focus on reducing that and working with customers to get them onto payment arrangements and ensuring that we are being more proactive in our contact with customers. The biggest challenge for customers, whether it is a business or a residential customer, is when the bill gets to a certain magnitude, their ability to pay just becomes impossible. Therefore it is really important for the energy retailer, Aurora Energy, that we are working with customers early and that we are helping them keep those bills smaller, whether it is business or residential customers, and assisting them to get into sustainable payment arrangements to keep on top of their energy bills. That is why we have seen such a massive reduction in our debt book over the last 12 months.

Ms FORREST - But there is a significant increase in the amounts written off as uncollectible from \$5 million to \$8.5 million.

Mrs KARDOS - You are right. Compared to our provision for doubtful debts, we exceeded that last financial year. One of the things that we did as our review of this business is that we really

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got 'under the covers' around our outstanding debt. We found that we had quite a lot of very aged debt for which there was no ability to recover. By doing that review of the book we were able to clean up a lot of debt. Hence, you have seen that there was -

Ms FORREST - So we should see that drop away again then, you suggest?

Mrs KARDOS - For the year to date, we are well and truly under budget in terms of our debt provisions this year.

Ms FORREST - My final question I might get to put on notice, Chair, and it is in regard to how the possible RET changes could affect Aurora, if at all, unless you can answer that quickly now, but it might be a bigger one -

Mr WILLIS - It is a work in progress. We are still to see big changes.

Ms FORREST - You mentioned that the abolition of the carbon tax had a positive impact on energy prices, claiming that was the reason for it, but the RET potential changes could have another significant impact, could they?

Mr GROOM - This is one of the things about the RET. Some people assume that the RET had just resulted in higher power prices, but the review has shown that it has had an impact on wholesale prices so the net outcome is a marginal reduction. That is one of the elements that is misunderstood in relation to the renewable energy target. The carbon tax is very different, it is straight in the box.

Mrs KARDOS - The challenge in answering your question around RET is, until we understand what the RET is going to be in the future, we do not really know what the impact of those changes are until we have a better understanding of what these changes are going to be.

Mr GROOM - That is right and the Government is very committed to continuing to advocate for a strong pro-Tasmanian outcome. We are very pleased that what was previously suggested to be a complete abolition of the RET is now off the table, but from our perspective we want outcomes that are good for Tasmania. We have significant investments.

Ms FORREST - Being the minister responsible for Hydro, too, you would be very concerned about that.

Mr GROOM - That is right. We have significant investments and we want to make sure those investments are protected, but we also want to make sure there is good outcome for power consumers.

CHAIR - Your final question on financials?

Mr MULDER - I notice on page 105 you reported a statement of financial position, which is of course for the old Aurora.

Ms FORREST - That is last year's AG's report you are referring to, they will not be able to find it there.

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Mr MULDER - The statement of the financial position was that you listed in inventories a list which is now about \$27 million in 2013. There is also listed property, plant and equipment of about \$1.5 billion, which was for the whole entity. For the new Aurora that does not own or read its own cash register, I am wondering about the next financial report, how much there is going to be in property, plant and equipment and in inventories?

Mr GROOM - That will be included in the material that we are going to send through.

Mrs KARDOS - We will include that, but property, plant and equipment at the moment is \$4.4 million as at 1 July.

Mr MULDER - Can you just give me a snapshot of the sorts of things property, plant and equipment covers?

Mrs KARDOS - The majority of that is PayGuard units, which is part of the PAYG. We said that we still own that element. The majority of that \$4.4 million would be for PayGuard units.

Mr MULDER - Now it comes to the question, if that is the only property, plant and equipment, why isn't this a sub-unit of Transend rather than the entire government business enterprise in its own, given the fact that it is forced to buy products at a set price and forced to sell them at a set price? I am wondering why the word 'enterprise' even appears in the name.

Mr GROOM - I spoke about that before. We are where we are, certain decisions have been made in the past. The Government is very comfortable that there were some good efficiencies in merging the distribution part of the business into TasNetworks. We think that is a very good outcome.

We do believe that there is merit at this point to have an entity which is focused on customer service - the retail interface in the energy sector. There are also benefits in ensuring that we are well-placed to take account of any particular interest that might emerge in relation to the customer book, to have it set up as a separate entity in that sense. I understand the point you are making but the Government is comfortable that it is appropriate. The most important thing is that it is doing its job well in a cost-prudent manner and delivering good outcomes for consumers.

If I could take the opportunity, Chair, if we are summing up, to thank Geoff and Rebecca for their work, and the entire team at Aurora, for all their work. If I can describe it this way, the new Aurora is very much focused on delivering good customer outcomes and I do appreciate that leadership.

CHAIR - Thank you very much, minister, and your staff. The committee will now adjourn until 11.15 a.m. when we will start on TasWater.

The committee suspended at 11.02 a.m.