PUBLIC

THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART, ON MONDAY, 21 NOVEMBER 2016.

INQUIRY INTO THE FINANCIAL POSITION AND PERFORMANCE OF GOVERNMENT-OWNED ENERGY ENTITIES

Mr GRANT EVERY-BURNS, CHAIR**; Mr STEPHEN DAVY,** CHIEF EXECUTIVE OFFICER; **Mr MILES SMITH,** CHIEF FINANCIAL OFFICER; **Ms RACHEL STEVEN,** MANAGER, GOVERNMENT RELATIONS, **Mr EVANGELISTA ALBERTINI**, CHIEF TECHNICAL AND OPERATIONS OFFICER, HYDRO TASMANIA, WERE RECALLED AND EXAMINED.

CHAIR (Mr Dean) - This is a public session and is being recorded on *Hansard*. You have parliamentary privilege whilst you are in this environment but once you move outside, parliamentary privilege no longer applies. If you have information you would like give in confidence, you need to ask the committee and we will make a determination.

Grant, would you like to make any further statement on things that have happened since you last appeared before the committee?

Mr EVERY-BURNS - Quite a lot has happened in the meantime. Thank you again for the opportunity to appear before you. I might put a personal touch to this and note that all of you have put in a lot of hours in addition to the norm in this particular quest. Likewise, the officers and staff of Hydro have put in extraordinary amounts of time and resources in the search effort.

There have been some significant developments since we last appeared, most notably in October, Hydro announced its results for the year, and the headline was an underlying loss, 2015-2016, of $65.4 million. That is the normal, standard comparative used across the financial world year on year. But for completeness I note our net profit after tax, is a loss of $285 million, and on the comprehensive line that comes up to almost on balance, a small loss of $3.6 million. That is for completeness, but at the comparative level it is $65.4 million loss.

That result is about $100 million below budget, and it is somewhat better than the estimated loss of $90 million I advised this committee on 20 June 2016. I would like you to appreciate the improved result, post what we knew when we spoke to you. The first time round was fuelled by strong revenue in the second half of June, brought about by very good rainfall, increased generation with numerous storages on spill in that period. It related to exports in the Victorian spot market, where electricity prices had become quite high.

It was also supported by additional revenues from the gas market, gas market sales into higher prices, and additional revenue from the sale of environmental energy products. That created a turnaround to some extent.

Hydro Tasmania had previously estimated the cost of the energy supply challenge at between $140 and $180 million, including offset reduction in Basslink costs. Owing to the better result for 2015-2016 and good inflow since then, we now expect the overall cost to be at the lower end of

that range. Most of the impact occurred in the previous financial year, with some small amount carried over into the current financial year. As promised, Hydro Tasmania has borne the cost of securing supply, as evidenced by the annual accounts, and in doing so, largely protected Tasmanian consumers.

The state budget projects no dividends from Hydro Tasmania until 2019-2020 financial year, but that does not mean that Hydro will be unprofitable in the period. We will work closely with the Tasmanian Government to increase our financial strength for the benefit of all Tasmanians.

The cost of the energy supply plan to Hydro Tasmania was substantial, but certainly justified for the purpose of protecting energy supply and the economy. While there is no doubting the anxiety caused by the energy supply challenge, Tasmania's energy supply was protected. The state's reputation as a good place to live, work, visit and do business remains strong. The energy supply challenge required our people's best skills, creativity and determination. That continues, and it is currently laying foundations for the future. Hydro Tasmania will rebound strongly from the challenging 2015-2016 by rebuilding storages, restoring profitability and reducing debt.

By the end of this financial year we expect to break even, or post a small profit. We will reduce debt by more than $50 million, from approximately $827 million to a target of $772 million.

As we sit here today, our deep cyclical weather patterns continue to play out in real time. In the five months of this committee's deliberations, Tasmania has experienced a significant wet period. Most recently October 2016, yielded one in 20 year wet inflows. It is quite exceptional. These conditions have greatly assisted our conservative rebuild strategy, and it allows me to report storages today exceeding 46 per cent. The practical effect of this is Tasmania is now very well placed to ride through a repeat of last year's extreme events with minimal impact.

This leads me to note our Hydro power assets did not let us down when they were most needed over the last 12 months. They have seen us through acute water shortages, bush fires and flood. This is because they are good assets, well built, well maintained in accordance with the corporation's 10 year asset management plan. We know the overall risk position of our assets is much better than a decade ago. We measure it and monitor it. We have boosted investment in the current plan by 10 per cent and we believe this plan properly identifies the risks we are aware of.

In conclusion, Hydro Tasmania remains strong both in its financial position and in its key assets. There will be no complacency as we move forward.

CHAIR - If I can ask a question from your comment about another situation similar to the one we have recently gone through, that Hydro Tasmania would be in a position to get through that, and I take it comfortably, is that what you are saying?

Mr EVERY-BURNS - That is what I am saying.

CHAIR - What do we have in place now that we did not have in place before? More water storage, more than we started with?

Mr EVERY-BURNS - At the start period around this time, when the storage is getting low, storages were probably in the early twenties. At the moment the storage is sitting at 46 per cent. They are more than 20 per cent above where they were in the equivalent period last year.

I am advised that with that starting position we can withstand a Basslink outage every bit as big as the one we had. And we can withstand the weather conditions every bit as similar to those we had.

CHAIR - You are pretty certain of that position?

Mr EVERY-BURNS - It is evidenced. We know what the burn of water was from the 23 per cent position to the 12.5 per cent position over the whole period. If that was repeated we would come out with substantially more water. I think it is self evident.

Mr GAFFNEY - After we spoke last time you mentioned you were doing a reassessment of what you think is a good number, a good percentage to be at. Have you furthered that or has that report been finished or compiled? We are saying 46 per cent is a good number but what is the bottom line? What are you aiming for all the time?

Mr EVERY-BURNS - Forty-six is a high number at the moment. We are continuing to work with the taskforce. The taskforce has been charged with that responsibility, to produce the interim report. With their suggestions on those storage levels and so on, by about December, and the final report in June next year. We have views and we are having input to the process but essentially we do await the outcome of their report. It is progressed, the work is in hand.

CHAIR - On the water storage, what are your predictions on water storage with the weather forecasts that are coming in? I know this is an area -

Mr EVERY-BURNS - I can answer that fairly clearly. I do not expect storages to increase much from this point because of the normal seasonal situation, which is the rain begins to fall off in this period. Our draw on storages normally is about 1 per cent a week in very round terms.

Mr DAVY - If there is no rain at all and no outsources.

Mr EVERY-BURNS - From what we are seeing at the moment the inflows will continue for a period because the ground is wet. The draw will continue at the normal rate. I would not expect it to keep peaking from here. From here we are in a very good position but I would expect it now to decline down the ramp. It will be carefully watched.

Ms FORREST - On that point, what is the base line you want to stick with now and in the future? We know Australia has droughts, no doubt we will have another one.

Mr EVERY-BURNS - We are going to be informed on the baseline in accordance with the taskforces outcomes. We have set ourselves, in the interim, a target for the end of the financial year with at least 30 per cent in storage. We are on track to do that.

Mr DAVY - What we announced a few months ago was that we would aim to be above 40 per cent at the beginning of summer. Clearly we are going to manage that. It is at 46 per cent now so at the beginning of December we will be well above,

Ms FORREST - Not through your actions particularly, though.

Mr DAVY - No, this is what we talked about a couple of months ago. This year we are aiming to be above 40 per cent at the beginning of summer and above 30 per cent at the start of the next financial year so we are well on track to achieve that.

Mr EVERY-BURNS - I believe it is partly through Hydro's actions. We have had a very conservative operating strategy and we have gone out of our way not to use water in the major extent we can so we are trying to make sure that if a spill occurs it is going to occur in areas where we can generate as heavily as possible but we have been holding on to majors so that is where most of the storage rebuild is occurring. It is quite deliberate.

Ms FORREST - I accept that but the rain has come.

Mr EVERY-BURNS - If the rain had not come it would have simply meant we had to do other things in addition and it would have cost more money but they would have been done.

CHAIR - Again on this point, the 46 per cent water holdings right now if you looked back over say a 10 year period what have been your water holdings at about this time of the year, coming into the summer, for the lower rainfall areas? Are you able to average that out? I guess you would.

Mr EVERY-BURNS - The company could. Chair, you are asking me a question and I do not have that information at my fingertips. It is healthy comparatively.

CHAIR - Are you in a much better position now than you have been generally across those previous years? Are you similar or below it?

Mr DAVY - My expectation is that in the lead up to the carbon period we have probably had more because we had deliberately stored more for that period but in the preceding periods I would not expect us to have been quite as well off. I did not expect but numbers could be checked if it was critical.

Ms FORREST - The AETV evaluation; we had a briefing with the Auditor-General last week as well after he published his report. I want to go through a few points and get an answer from whoever feels best placed to answer. In answer to a question you gave us back in that 1 September meeting you gave us the car book value of the CCGT of $16.7 million, down from $75 million,

Mr DAVY - I think we are talking about information that was only provided in confidence.

CHAIR - If you are in a position we can see where the question is going. Are you saying to us as a committee this is evidence that you would like to retain in confidence? We need to know. The questions are being asked. It is up to you.

Mr DAVY - Is this part of this year's annual accounts now because I think when we provided it it was in confidence but it was already part of this year's annual accounts then we are probably happy to answer it.

Mr SMITH - The whole number is. I am pretty sure that 16 is in there.

Mr BACON - Is it operating at the moment, the power station?

Mr DAVY - The power station is the five units combined. Are you asking about the main unit, the combined-cycle unit? The combined-cycle unit is scheduled to come on line in January. We were originally planning to have it on line in October but that was always going to be dependent on how good the inflows were over winter and spring. Because they have been much stronger than average we have delayed putting the combined-cycle unit on until January.

Mr BACON - If you wanted to fire it up, say you made the decision to fire it up today for whatever reason, how long would that take to generate energy?

Mr DAVEY - It is about a 14-day lead time.

Mr BACON - In terms of when the decision was made last year, before Basslink went down, to recommission the power station, how long did that then take for it to generate power at that time? A number of months?

Mr ALBERTINI - It was about nine weeks, say two months. There was a piece of work that the original equipment supplier said that we should do before we fully put that unit on line.

Mr BACON - What was that work?

Mr ALBERTINI - It was one of the turbine air coolers. It needed refurbishing before the unit could go back in service.

Mr BACON - In terms of when it was announced it would be sold and decommissioned, I think on 12 August, what was done to the plant at that time?

Mr ALBERTINI - It was not decommissioned so there was no action taken that prevented the plant from being put back into service. The plant was in dry lay-up but there was no equipment removed or services removed to the unit.

Mr BACON - In terms of dry lay-up, before the decision was made to seek expressions for the sale of the unit and in the past it had operated, Dr Crean, the former chairman, told us on Friday it could be fired up in a matter of days when it became commercially -

Mr DAVY - What is Mr Bacon referring to here?

CHAIR - Can you make it clear?

Mr DAVY - He mentioned Dr Crean.

Mr BACON - Dr Crean gave evidence to the committee on Friday.

Mr DAVY - What was the status of his evidence?

CHAIR - His evidence was public evidence that was given in the public arena. It was open to the public. It will be posted online as soon as we can get the drafts up.

Mr DAVY - Was it posted on line?

CHAIR - It will be. It was on Friday.

Mr DAVY - Was notice that he was going to be?

CHAIR - It was probably that day.

Mr BACON - Because he appeared by telephone, I think it was not televised because there was no-one here on camera.

CHAIR - It was an open, public session.

Mr EVERY-BURNS - To be fair, can I request if there is any references to what you have heard Dr Crean say, that we have not, can you tell us what was said, so we are on the same page.

CHAIR - The members are entitled to ask you questions that came from that evidence. It was in the public arena. If a question comes from one of our members in relation to that and you would like to take further advice or want to read the transcript then please say that you prefer to take it on notice so you can look at the transcript and provide the answer in accordance with that.

Mr EVERY-BURNS - He is only suggesting at this stage that if that is the situation, can you preface the question with whatever the statement is so at least we know what was said.

Mr BACON - Yes, no problem. We do not have the transcript here but from what Dr Crean said, the power station could be fired up if it was commercially appropriate to do it within a matter of days and produce energy. You talk about the combined cycle unit being put into dry lay-up after the Government made the decision to seek expressions of interest.

Mr DAVY - No, that is not correct.

Mr BACON - Which bit?

Mr DAVY - The combined-cycle unit had been in dry lay-up for a number of months prior to August. There was no change in the operational status of the combined-cycle unit.

Mr BACON - When did the combined cycle unit go into dry lay-up?

Mr DAVY - It had been in dry lay-up for almost 600 days by the time it came back into service. I think the last time it had operated was 8 July 2014.

Mr ALBERTINI - We received it in 2013, operated it for a year.

CHAIR - Can we get that date clear?

Mr DAVY - The CCGT had been in dry lay-up since it last operated on 3 June 2014 and it was returned the service on 20 January 2016.

Mr BACON - Who may the decision to put the unit into dry lay-up?

Mr DAVY - Hydro Tasmania.

Mr BACON - There was nothing done to the unit until November last year or December last year?

Mr DAVY - There would have been lots of things done.

Mr BACON - There was maintenance done?

Mr EVERY-BURNS - Dry lay-up is about storing it in a completely preserved condition. It is not about shutting it down in an orderly fashion. It is about opening it up and leaving it in the condition where it has dry air put through it. You do everything you can to totally preserve it. That total preservation meant, what you have quoted Dr Crean as saying to me does not sound at odds with any position we have already put. That is, it was intended to be commercially available, it was intended to be fully available for sale, and it was intended to be in perfect condition. That is the intention of the process.

Mr BACON - So it would have been fair to say there was no power generated by the combined cycle unit at all in the financial year in 2014-2015?

Mr DAVY - That is correct. In the financial year 2014-2015 there would have been no generation from the combined-cycle unit.

Mr BACON - And so through that whole financial year there was no point where it was commercially appropriate to use the unit? There was no value for money in running the unit during that financial year?

Mr DAVY - That is what we calculated at the time, yes.

Mr BACON - Yes; the drought effectively had started at that period?

Mr DAVY - No, the first drier than usual month was September 2015.

Mr BACON - September 2015?

Mr DAVY - Yes.

Mr BACON - And then the decision was then made in November? Sorry, I have forgotten that November date.

Mr DAVY - We started looking into it in October and we made the decision to return in late November.

Mr BACON - So the unit was not effectively in dry lay-up state, in the 2013-2014 financial year, where it could be fired up in a matter of days.

Mr ALBERTINI - No, the unit was in dry lay-up from 8 July 2013 to 10 December 2013.

Mr DAVY - Right. So maybe we can explain what dry lay-up means?

Mr ALBERTINI - It is to leave it in a state of readiness. The nature of the unit, unless it has dry air going through it, then all the cooling tubes are subject to corrosion and would cause damage and would not be able to be restarted quickly.

Mr BACON - So there is a 14-day period to fire the unit up at the moment and the only reason it took nine weeks is because there was a part of the unit that had to be refurbished?

Mr ALBERTINI - Not the only reason. Christmas occurred during that period of time. The rest of the power station had been operating to bring the unit back without a crew. The crew had Christmas off and we returned the unit after that.

Mr BACON - So the seven weeks is due to Christmas and to that other thing you talked about?

Mr ALBERTINI - In the normal process and as it had been in dry lay-up for a particularly long time - 600-odd days - to ensure it ran reliably then a more comprehensive check was done.

Mr BACON - Dr Crean also said in April 2014, he gave the first presentation Hydro gave to the Government presenting the sale of the combined cycle unit as a possibility. He never got any feedback from the Government before he then left the role. So my question would be were you in that meeting in April 2014?

Mr DAVY - I really can't recall.

Mr EVERY-BURNS - I was not and I have no knowledge of what you are talking about.

CHAIR - As I previously said if you would prefer to take that on notice, it is understandable as you have not had an opportunity to read the transcript of Dr Crean.

Mr EVERY-BURNS - No, it is a statement that is made. I don't think it causes us much -

Mr DAVY - I am not trying to be difficult. I just do not know whether I was at that meeting.

Mr BACON - So he said the first meeting with the Government was in April after the election. There was a range of options put to the Government that included the possible sale of the combined cycle unit. A value of $100 million was conveyed to the Government at the time as what Hydro expected. It was a preliminary evaluation from your point of view, but that $100 million sale figure was put to the Government for the combined cycle unit to be sold at that time.

Ms COURTNEY - Point of order, Mr Chairman. I do not recall from the meeting we had on Friday with Dr Crean that level of detail being provided specifically around that meeting. Without the transcript, it is very difficult to be able to reflect on what was actually said at what time because I took notes of the meeting but

Mr BACON - You do not have to answer the question either.

CHAIR - The member is referring to a discussion relating the information he is of the view was given and I know I cannot be certain. I have not read it either, so are members clear on that position?

Mr BACON - The meeting was in April - the sale of the power station was put forward, as was the valuation. From your recollection did that happen in April 2014?

Mr DAVY - I can go back and find out, but I do not have any record with me of that meeting.

Mr BACON - Do you recall your first incoming briefing with the Government?

Mr DAVY - There were many briefings with the incoming government.

CHAIR - Would you prefer to take that question on notice?

Mr DAVY - What is the question? Did we have a briefing in April?

Mr BACON - Yes, and was the sale of the power station put forward to the Government in that meeting?

Mr DAVY - I will take that on notice.

Ms FORREST - I will ask the whole question, because this is all on the public record. It is on our website and it is in the question answered publicly. There were some private answers and some public answers. I am not saying anything that is not publicly available. In September you gave us a current book value of the combined-cycle gas turbine of $16.7 million, down from $75 million in 2015 - a drop of approximately $58 million-plus. The Auditor-General referred to a drop of $40.82 million, so I am interested in why there is a difference. Are you saying the CCGT only has a value of $16.7 million?

Mr SMITH - The answer to that question is yes. Currently on our books the CCGT is valued at $16.7 million. There is some other equipment on that site valued at around the same amount, which is the FT8s and the Trent, and that gets you up to $40 million on the books.

Mr DAVY - The explanation of the discrepancy is the valuation of the other units, which we would previously assume to be zero, now have positive values -

Ms FORREST - I am looking at the CCGT value rather than the whole lot.

Mr DAVY - The CCGT value has changed by as much as you just calculated, but the other four units were previously valued at zero, but now are valued at small positive numbers.

Ms FORREST - When you took over the CCGT it was valued at approximately $99 million -

Mr DAVY - I believe that is what we wrote it down to in our first annual accounts after we received it.

Ms FORREST - You are saying that is what you believed it was worth?

Mr DAVY - Yes.

Ms FORREST - And then the potential sale at the time was $75 million. It is now $16.7 million, which continues to fall away. You could argue this was what kept the lights on during the energy crisis, so does energy security not factor into this valuation? What constitutes the valuation of only $16.7 million?

Mr SMITH - According to the methods we have to use in our accounts, the asset is valued - it is the higher of its value in use for its sale value less cost of sale. The value in use was valued at zero, so it was the resale value less costs. We had an advisory firm, Craigie Engineering, which is very experienced worldwide, to give us the most recent valuation as part of the annual audit. That is how it is valued.

Ms COURTNEY - Is that valuation method stipulated through accounting standards?

Mr DAVY - Yes.

Ms FORREST - So we can expect it to stay at a similar valuation in coming years?

Mr SMITH - Yes, I would expect so.

Mr EVERY-BURNS - This is exactly the issue boards and managements face all the time. The circumstances in which it was used, have been and gone, the machine is now sitting there fully available. You said it has all this current value for energy security. I am saying, hand on heart, we do not need it for energy security. Even if we went through what we have gone through, it is unlikely we would have to fire it. We may, but it is most unlikely.

Ms FORREST - You are saying that an extended outage of Basslink and another severe drought, you wouldn't need to fire it up.

Mr EVERY-BURNS - We could work it all through, but that is my contention right now. From where we are sitting, it is unlikely we would need to.

Mr BACON - At this point?

Mr EVERY-BURNS - Yes, Scott, at this point. When you are looking ahead and you are trying to put valuations around these things, Myles is reflecting these standards that are used. Does it have a value in use? Could we project a revenue stream that emerges from it, the answer is no. Then you fall back to, does it have a sale value? Initially, we believed it did - for reasonable reasons we believed it had a sale value. In the most recent estimates from people who look at the world market - which has moved during all this activity, as the years go by the market moves - they are saying to us the cost of picking it up, dismantling and finding a buyer means that the residual left, in terms of value, is very small. I have no reason to doubt the original figures we looked at. Ruth noted that the figures quoted at the time we took the asset on, seemed to be reasonable. Now we have other good advice, we have no reason to doubt that.

Ms FORREST - While we are on AETV, I want to talk about some of the contracts. These are areas we did not perhaps go to. We have talked about AETV before, but the expert panel report talked quite a lot about this. I am sure you have read that.

Mr EVERY-BURNS - For 2012?

Ms FORREST - Yes. It talks about the hassles, basically, between Hydro Tasmania and Aurora, as owner of AETV at the time. Aurora uses contractual arrangements with Hydro Tasmania to secure a better deal in respect of the non-contestable customers, which is what it says in that report. It also said that if Hydro Tasmania exercised an option to supply more of the contestable load to Aurora, putting Aurora in a position it could not operate the Tamar Valley Power Station profitably.

Mr EVERY-BURNS - I am sorry, you are catching me completely off balance. I do not have detailed knowledge of the report. Steve, you may be able to answer better than me on this.

Mr DAVY - What was the last point you made, Ms Forrest?

Ms FORREST - In the expert panel's report it said that Aurora uses contractual arrangements to Hydro Tasmania to secure a better deal in respect of its non-contestable customers. Then Hydro Tasmania exercised its option to supply more contestable load to Aurora, putting Aurora in a position where it could not operate the Tamar Valley power station profitably. I am not making it up, this is what they said in their report. I wonder if there are any matters that hang over from those previous arrangements. Can you also provide some information about the gas contracts that you inherited as part of the AETV? Are they still in place, the supply in respect of the take or pay gas contracts and tolling arrangements, the hospital range? It has never been clear to me what was take-over, what wasn't.

Mr DAVY - I can answer that.

Mr EVERY-BURNS - Yes, just commercially sensitive please.

Mr DAVY - Yes, that's right.

Mr EVERY-BURNS - I am not sure it is in the public arena.

Mr DAVY - No, but much of the information is. In regard to any overhanging issues to do with the contractual arrangements that existed between Hydro Tasmania and Aurora before the transfer of the AETV assets, no there are not. All of our contracting activities are current. They have all been entered into since that time. There is nothing that overhangs from that area. Does that answer that question?

Ms FORREST - Yes.

Mr DAVY - What was transferred to Hydro Tasmania in June 2013 was the AETV company, which owned the power station, which had effectively been renamed Aurora Energy Tamar Valley and a company called Alinta Energy Trading and Marketing. That company contained a number of arrangements. A gas contract with Esso-BHP, gas transportation arrangements with TGP and it also contained a tolling arrangement with Bairnsdale Power Station which is, as it happened, owned by Alinta Energy. It is a tolling arrangement for the Bairnsdale Power Station which is in Victoria. There are also a number of back-to-back arrangements where we were, at the same time, buying the gas and buying the transportation, selling the gas and transportation on to the retailers of gas here in Tasmania and on to some of the major customers in Tasmania. All those gas arrangements, those contractual arrangements, with the exception of the Bairnsdale arrangement, expire either at the end of 2017 or close to the end of 2017.

Ms FORREST - They all expire at that time?

Mr DAVY - The arrangements that were transferred to us? Yes.

Mr BACON - When was the decision made to make the workers at the power station redundant?

Mr DAVY - That decision was made in August of last year.

Mr BACON - When were the redundancies paid out?

Mr DAVY - I do not recall the exact dates. It would have been different for different individuals.

Mr ALBERTINI - Not all of them were paid out. A couple of the people we re-contracted. So, just whatever the agreed terms were.

Mr BACON - How many workers were at the power station until August 2015?

Mr ALBERTINI - Approximately 30.

Mr BACON - How many were made redundant in August 2015?

Mr ALBERTINI - I believe the number was 12.

Mr BACON - So, 12 and they were re-hired, or were those position refilled later in the year?

Mr ALBERTINI - Some of those positions, yes. Not necessarily a like for like arrangement.

Mr BACON - How many staff are at the power station now?

Mr ALBERTINI - I believe 24.

Mr BACON - I think you said they were offered a redundancy and then contracted back so there was a redundancy paid? About what time did that occur?

Mr ALBERTINI - When we decided to recommence the operation of the power station.

Mr BACON - In November?

Mr ALBERTINI - That sounds about right but I do not have the specific dates in front of me.

Mr DAVY - We have been asked these questions on notice and provided the answers already so we are going over old ground.

CHAIR - I should have commented at the beginning on that. That will happen with some questioning. I do not really apologise for that because a lot of things have happened in the meantime but I ask members to try to be conscious of those areas we have previously covered.

Unless there is something new coming from it, be careful because there is not much to be gained from repeating questions.

Mr EVERY-BURNS - Chair, we are in the same position because, as you say with the efflux of time, we may answer questions here slightly differently but it does not mean the answer is different. It has to be accepted.

CHAIR - We will be aware of that. That is the same with the other energy authorities we have had back and other witnesses. We understand that.

Mr EVERY-BURNS - That is why we have been hesitant to some extent. We think we have answered before and it will not get any better.

CHAIR - Sure. This is not a position we brought on for the purposes of trying to catch anybody out. It is not the case. We are very understanding of that and we will note that in going through. Thank you for raising it.

Mr DAVY - I am drawing to your attention that we have already been asked questions about the redundancies, the return to service and who was re-employed. We have taken some question on notice. We have provided those answers. If there is something new, we are happy to answer something new but this is so far very much deja-vu.

CHAIR - I ask our members to be conscious of that but if the question is asked I would ask you do your best in answering it again.

Ms FORREST - Going back to AETV in terms of your annual report which describes AETV as having two business activities and a loss of about $60 million was reported in financial year 2016. What was the loss associated with the generation activities and the loss of profit gas sales and gas transport sales? Can you provide us with a description of the gas related activities and the contracts of the gas transport and gas sales and their duration? I am trying to figure out where the profitable bits of the business are and where the losses are coming from.

Mr SMITH - In our annual report when we split these segment notes up, this is about as detailed as it gets, so you are asking for more details behind each segment?

Ms FORREST - Yes.

Mr SMITH - That is not something I can give you off the top of my head. Can you repeat what sorts of things you are after?

Ms FORREST - The loss associated with the generation activities and the loss of profit associated with gas sales, gas transport sales and it probably needs to include a description of the gas related business of AETV and the contracts held for gas transport and gas sales and their duration. You can put it in writing too if you want.

Mr DAVY - Yes, we do not have that kind of detail to hand, but we will take it on notice.

CHAIR - We will do as we did on other occasions. The questions you take on notice, we will put in writing to you so there can be clarity.

Mr DAVY - I think that is commercial as well. We can put that in our answer.

CHAIR - If you can answer now that is good, but if you need the time then that is acceptable. The reason for that being that there could be other questions arising from the answers you provide. We do not want to have to bring you back again and we can put any further questions, back to you in that form.

Mr EVERY-BURNS - We could help bit by commencing an answer on this. There is a loss associated with generation in that figure and there is a loss associated with the gas transactions that is not broken up here.

Mr DAVY - The operating result is the $28.7 million in the annual accounts as the result before [inaudible] movements. We already provide that level of break-up. To provide another answer which is how much of that 28 was generation and how much was gas wholesale transactions, we do not have that level of detail here.

Mr EVERY-BURNS - We can acknowledge some of that loss is associated with the legacy contracts, because there is a loss built into them permanently and we have already made those statements publicly before. Some of it does go to the way we accounted for generation activity. We used gas to create the power and is where that additional gas expense comes from.

Ms FORREST - We are asking for a bit of a break up of the adjustments and eliminations to help us to understand what is losing money, what is not losing money and what is making money, because something must be.

Mr SMITH - Part of the reason we cannot answer straight away is the note before it, which is the deed of cross guarantee. We do not do full accounts for AETV. ASIC has given us an exemption because they are part of our group, 100 per cent owned. The sort of questions you are asking are quite detailed and we would have to go back and make some assumptions to work out what cost you would allocate to what things and then you could work out profitable segments.

Ms FORREST - Is not that a reasonable question in view of the fact we are not selling it now? It is going to be part of our generation assets and the contracts are potentially up for renewal. There is obviously work to be done there. It is a relevant thing in terms of understanding the risks or the opportunities for the business.

Mr DAVY - We will take the question away and come up with any answer. We do not have the numbers to hand.

Ms FORREST - On your income statement, page 48 of you annual report, can you provide a break up of the sales of products and services in the parent company's income statement? Coming back to a question asked during the year to provide details of other revenue of $154 million from the Auditor-General's report. Can you provide a break-up of all revenue from the parent company as we received last year from the Auditor-General's report. He does not breaks it down to such an extent and I unfortunately left that in another place.

Mr EVERY-BURNS - Whatever you saw in the Auditor-General's report last year in terms of the revenue breakdown, you are asking if we can give you a similar -

Ms FORREST - No, you provided an answer based on the Auditor-General's report last year about the other revenues and I am asking for a breakdown of all revenue of the parent company. We have the sale of products and services, fair value gains, share of profit and joint venture and I need other. You did for last year and I am looking at this year.

Mr SMITH - The Auditor-General did it last year.

Ms FORREST - You provided some further detail to it.

Mr SMITH - The Auditor-General may or may not have done that again this year.

Ms FORREST - I am asking you to do it. Unfortunately, I left the Auditor-General's report somewhere else and I cannot put my hand on it at the moment, but I do not think you did. I looked at it.

Mr DAVY - We understand the question.

Ms FORREST - The short turnaround from the Auditor-General tabled his report and now we are back here again. We are only human too on this side of the table.

Mr SMITH - I will try to get you an answer within this session if I can.

Ms FORREST - I also need the direct costs in other, which is a larger line item for the parent company. Other revenue and other expenses.

Mr SMITH - Okay.

Mr BACON - There is a provision in the accounts of $33.8 million for the decommissioning closure and site rehabilitation of the Tamar Valley Power Station and that the work is not expected to be undertaken until 2039. When you were seeking the sell the power station, were there discussions about when that work would need to be done if the power station was sold?

Mrs RYLAH - You mean the combined-cycle unit, Scott?

Mr DAVY - Yes, that is a very good point. The discussions we were having with the Government were about selling the main unit and not decommissioning the site. The decommissioning costs of the site would only occur when all the units at the power station were no longer used. Of the five unit on the site now, only one of the five would be sold and the other four would be remaining. Decommissioning the site would -

Mr BACON - There were no discussions about that at the time?

Mr DAVY - I do not think we changed the provision for the site rehabilitation as a result of wanting to sell the CCGT.

Mr SMITH - I think we did change the assumption about the old Bell Bay power station. When the situation of last year's events, we pushed that out a bit because we would not have had the resources to do all that.

Mr BACON - It is about having the funding available to be able to decommission that site rather than manpower?

Mr SMITH - It was more about manpower because we were busy installing diesel. That is not TVPS, that is the old Bell Bay power station.

Mr BACON - No, it is the other one that has the $24.1 million, so you delayed that work until 2017 through to 2021 rather than do it during the energy crisis? Are they the same workforce that operates the current power station, that would decommission the old power station?

Mr ALBERTINI - We have used resources. No, that is past tense as the Bell Bay Power Station, the old thermal station, is decommissioned. This would be for demolition and site rehabilitation.

Mr BACON - Right, so it is a different workforce?

Mr ALBERTINI - They are specialist demotion contractors typically.

Mr DAVY - We also utilise the old thermal power station site as one of our supplementary diesel sites. That is the site we installed the three TM2500s. Some 75 megawatts of diesel-fired turbines were installed at the old thermal power station site so we couldn't very well undertake demolition activities while we were doing that.

CHAIR - I have a question in relation to the annual report and I take it under a heading of contingent assets and liabilities and I refer to the penultimate paragraph in that section where it reads:

> The corporation has made claims against Basslink Pty Ltd (BPL) in respect of contractual arrangements between the corporation and BPL concerning the Basslink interconnector. The claims relate to the outage of the interconnector between 20 December 2015 and 13 June 2016.

Is Hydro in a position to provide the committee with a figure?

Mr EVERY-BURNS - We are in a position to provide that information. What is written there is correct.

CHAIR - Yes, I have read it from your annual report.

Mr EVERY-BURNS - What are you looking for?

CHAIR - You talk about a position there and there is a claim relating to the outage of the interconnector between that period of time, so I am asking are you able to provide the Committee with a figure?

Mr EVERY-BURNS - No, I think that is subject to legal professional privilege.

CHAIR - Can that information be provided in confidence?

Mr DAVY - We would have to take advice even on that, whether that was something we could do.

Mr EVERY-BURNS - We are happy to look into it.

CHAIR - You opened it up in your annual report.

Mr EVERY-BURNS - I am happy to explore this bit of the discussion in camera but I cannot suggest that we could answer your question.

CHAIR - Okay. We may need to go in camera at the end of the session to pursue that further.

Ms FORREST - In your cash flow statement there are proceeds from financial derivatives, $54 million.

Mr EVERY-BURNS - What page?

Ms FORREST - Page 51 of your cashflow statement.

Mr EVERY-BURNS - Just so we can be certain we are looking at the same thing.

Ms FORREST - I understand this has been invested. If you look under investments in the balance sheet, one would guess that would be to assist in reducing debt by $60 million this year. Note 15 on page 75 talks about that. Is that a correct assumption or not?

Mr SMITH - Is your first question, what is that process from derivative, the $54 million?

Ms FORREST - Yes, you can start with that and then we will go what it was used for.

Mr SMITH - That is a product of the way we trade electricity on the Sydney Futures Exchange. When we write contracts there, which we did during the energy crisis to make sure we had enough energy, we bought energy. When the price goes up then every day they calculate whether you owe money or the counterparties owe money and then that cash comes in so we had about $54 million came in from the SFE so it doesn't mean we have earned it. You would technically have it if we closed them all out but it is cash that is ours but possibly not yet ours, so we keep that separate until we have closed those positions but as to did it get used to pay off debt, all of the sum of all the cash flows in and out are the things that we look at and then we adjust the debt to fit that as a whole position and looking forward to what we can see coming.

Ms FORREST - So your debt is still increasing overall?

Mr SMITH - No, our debt is going down.

Ms FORREST - According to the Auditor-General on his assessment, the summary of borrowings from his report, the closing borrowings for 2013 was $900 million. In 2014, $858 million; 2015, $850 million; and now in 2016, $905 million.

Mr SMITH - I don't have that in front of me but that that is the debt line, so there will be other ins and outs down the bottom. If you have a look at the net debt line, that is what is

happening with our debt. Net debt is not in the annual report. What was the last figure you read out?

Ms FORREST - $905 million.

Mr SMITH - $905 million is the face value of all the debt we have with Tascorp. That is before things such as this $54 million. We have a net debt figure which takes into account -

Ms FORREST - So effectively the $54 million is used to pay down debt. You say it is less than that, that the debt is reducing.

Mr SMITH - No, it doesn't pay down debt. Paying down debt would be closing out some of the $905 million. It is part of our cash position.

Ms FORREST - How do you see your debt levels? The Auditor-General raised the point that the bottom line is still increasing. There is a letter of comfort there from the Treasurer.

Mr SMITH - Right now the debt is not increasing.

Ms FORREST - You still require the letter of comfort, though?

Mr SMITH - Yes, we do.

Ms FORREST - Is it your intention to try to get a position where you don't require that?

Mr SMITH - It certainly is.

Ms FORREST - What is the time frame of process for that?

Mr SMITH - It's within our corporate plan period. We think we can be stand-alone within the time of our corporate plan period.

Ms FORREST - Are we talking the end of this financial year?

Mr SMITH - No, maybe two to four years.

Ms FORREST - Give me an expected time.

Mr EVERY-BURNS - I refer you to my opening remarks. We are in good shape. We intend to pay down debt, our target this year is approximately $50 million of debt reduction, but over the next few years it depends on our having discussions with government. The more funds we can retain from our earnings, the more we will use to pay down debt. The less we can retain of the profits we make, the longer it will take to pay down the debt.

Ms FORREST - So it's a balance between returns to government, paying down debt, and getting rid of a letter of comfort?

Mr EVERY-BURNS - Absolutely. We're not trying to be evasive and we are not suggesting Hydro will be unprofitable. Hydro will be profitable and we are going to drive it to profitability and then we're going to work with government to try to use as much of those funds as we can to

reduce our debt, hence not need the letter of comfort and get into a position we are much more comfortable with. That is where we are aiming to go but to give you an answer on that, we just don't know.

Ms FORREST - I am asking for an expectation of when you are no longer going to need a letter of credit and the paying down of debt.

Mr SMITH - It is difficult for me to answer questions on the Auditor-General's figures because I'm not sure what they are. If we go to page 16 of the annual accounts - in the financial results section - if you look at table 2, there is a net debt section. This clearly shows where the debt is headed and it is headed down. In 2014, it was $851 million; in 2015, it was $839 million; and in 2016, it was $827 million. As we sit now, it is a lot lower than $827 million.

Ms FORREST - The Auditor-General has raised a flag in his report.

Mr SMITH - That's not what I am saying, so that is something you might have to take up with the Auditor-General.

Ms FORREST - Going back to the financial derivatives, which we started talking about from the cashflow statement, note 20 on page 91 of the annual report, it is a couple of questions about trying to understand how this works. It is not an easy thing to understand for anybody. In 'fair value' you talk about three different ways - levels one, two and three - where three different valuation methods are chosen - quoted market prices, market observable inputs and non-market observable inputs. Can you describe the energy priced derivatives valued by level one method, and method two method and by level three method?

Mr SMITH - Yes, I can. Obviously note 20 is a very long and complex note, a number of pages, and basically each part of the note looks at the derivatives in a different way to give you as much information as it can. This note, as with all the notes, is governed by accounting standards and what the standard says is that when you value an asset the most preferable way is level one. It is a transparent deeply liquid market where there is a price quoted. That is all the things in the level one column. Level two is a valuation technique but it uses observable market inputs so it is not a pathway between. Level three is when you need to value something but there is not a market. When you are valuing aspects of Basslink, like the Basslink Services Agreement, the BSA, which relies on the difference between Tasmanian prices and Victorian prices you cannot go to a market screen anywhere and look at that. That is a very complicated process of sitting down with the auditors and going through a model and they have to be happy with every part of that model and that is how this number is done and they have a specialist team, it is either the Melbourne or Sydney office, that has a look at this valuation. It is quite difficult to do but there is no other way to do it otherwise we would use a level one or two method.

Ms FORREST - Some of us do try and understand it a bit - besides people who have to. Thanks for that and still on pages 90-91 particularly, the largest group of energy priced derivatives used the level three method and the Auditor-General in his report says the contracts for the major industries were valued as derivative contracts. Are these derivatives requiring level three non-market observable inputs to value, major industry contracts? When the value of generating plant goes up so does the liability of the major industry contract I presume, or does it? Is that how it works? When the value of a generating plant goes up so does the liability of the major industry contract. It is a question, yes?

Mr SMITH - Yes, that is part of the story of the accounts. The derivatives that you have already bought, the contracts you have already locked in, when the price goes up they look worse when you market them to market. That is a negative number. Then on the other side you have still got lots of energy still to generate so when you value your assets using this method with higher prices you get a higher asset value.

Mr BACON - So it is offset?

Mr SMITH - It may or may not be offset. They go in different directions and in the case of this annual report we are looking at, the asset values went up.

Ms FORREST - An increase in the value of the generating asset was largely off-set by the fact that the MIs have locked in contracts. Is that the case?

Mr SMITH - In the short term.

Mr EVERY-BURNS - In this particular year it was those combined effects. Derivative value drove down as asset values drove upwards and the comprehensive income line then became almost balanced.

Mr SMITH - I think that is a good point. I know this is a complex report but it is easier to understand it,

Ms FORREST - Is it?

Mr SMITH - if you think that there are two major drivers. Most of these numbers are related to one or both of those drivers. The first one is the very difficult year we had and that is reflected in the $65 million loss. What a shopkeeper would say is their profit, but then at the same time assets have gone up and it has rained a lot. This business is very sensitive to both of those things. The value of the assets going forward looks bigger. In the profit section it looks like a big loss but when you get to the comprehensive income statement and you add in the asset again it is a break-even pretty much.

Ms FORREST - The length of term of the MI contracts is potentially one of the factors here. I am not asking for the names of each contract, but what length of contracts do you have with major industries? Do you have two at 20 years? What length are we looking at here?

Mr DAVY - I think we can talk about what is in the public domain. The largest customer in Tasmania is the Rio Tinto aluminium smelter. Their contract goes to 2025.

Ms FORREST - How long was that contract when it was set?

Mr DAVY - It was a new 11-year contract when it was first struck. The other three major customers, which are Norske Skog, Nyrstar, and Temco, add up to about the same volume. They have a variety of expiries, which I don't think are in the public domain.

Ms FORREST - The length and the duration of their contracts, are they all the same length when they are set?

Mr DAVY - No, there is a variety. The biggest and the longest one is the Ball Bay smelter.

Ms FORREST - What would be the shortest period of contract you enter into?

Mr DAVY - It can be whatever the customer wants. Some customers may well decide to hedge parts of their exposure one year at a time.

Ms FORREST - You have contracts of that length?

Mr DAVY - Yes, there are some arrangements that mature quite shortly, but I am not going to go into detail.

Ms FORREST - I am not asking you to do that. I am asking in terms of are they all long term? They are obviously not all long term, some are quite short.

Mr EVERY-BURNS - They are very bespoke. As I say, they are actually to suit the customer and they are very -

Mr DAVY - Some customers do not choose to hedge their entire risk out to one date. They enter into more of a portfolio-timed approach. It is not possible to answer even for one customer what the maturity date of all their contracts are, because some customers take other approaches.

Ms FORREST - I apologise if I missed the answer to this. With the energy price revenue measured using the market price as a market level inputs, what are they? What are those ones particularly? The ones that are measured by levels 1 and 2 basically.

Mr SMITH - For instance ones that we can read off a screen, like the ones that are on the Sydney Futures Exchange you can see a number for them, they are a level 1. Then you start getting into two and three involve some sort of projection, usually some sort of future projection. Sometimes you have markets that have quotes that are forward in time and you can use them.

Mr DAVY - I can probably be a little bit more specific. The Tasmanian price that we use is the regulated contract price methodology. That allows you to put in some observed inputs and calculate a forward price for Tasmanian contracts. It is not a directly observed price, but it is calculated using observed inputs. Where we have to calculate Tasmanian revaluation numbers beyond the observable national market prices, then we are using model numbers for the inputs rather than observed numbers for the inputs. That is when it gets you into category 3.

Mrs RYLAH - In the market, what does the market go out to in terms of the derivatives?

Mr DAVY - For Victoria and New South Wales for example?

Mrs RYLAH - Yes.

Mr DAVY - Three years.

Mrs RYLAH - Anywhere beyond three years you have to use a model number?

Mr DAVY - That is correct.

Ms FORREST - The same applies to both the assets and the liabilities?

Mr DAVY - Correct. We attempt to use the same curves on both.

Mr BACON - In terms of the combined unit, and you operate it when it is commercially appropriate to do so, can you set out what those conditions are in terms of the wholesale electricity price, the gas price?

Mr EVERY-BURNS - Yes, that is correct.

Mr BACON - When the gas price is at a certain level and the wholesale electricity price is at a certain point it is commercially appropriate to run that?

Mr EVERY-BURNS - No. You have to take quite a long-term view of it. Your observation about prices, if you look at the average expectation of the fuel costs and the long term expectations for electricity costs, you have to look at months ahead in this case. Otherwise you would not put the unit into service. It has a certain overhead to get it into service. Once it is in service it likes to operate. Now, hydro plant is much, much more flexible for us. With a hydro plant, if we see a high price in the market today, we can choose to generate into a Victorian price for example - put the plant into service and put it across the Basslink and take the benefit in four hours. There is what is called a commitment decision that has to be made for a gas-fired plant and commitment decisions are expensive one-off decisions. You have to sit back and not just look at price of gas at the moment and the price of electricity at the moment, you have to understand your sub-costs for the unit, the overhead in return into service and -

Mr BACON - So that is the commitment cost?

Mr EVERY-BURNS - There is a commitment cost so you have then have to decide, am I prepared to make the commitment and then leave it in service for a month or two or three months or whatever will genuinely repay the cost, otherwise you are burning the state's money. That is the dilemma we face. The combined cycle plant is a particularly inflexible plant. The Hydro plant is particularly flexible so you have your storages sitting behind it, decisions can be made very quickly. Even open-cycle gas turbines don't have such a commitment decision associated with them. It's much shorter decision times.

Mr BACON - There was no point in the 2014-15 financial year where those conditions were met but you made the decision not to run the power station -

Mr EVERY-BURNS - Not that I am aware of because it was so overwhelming that it cost a lot of money to make a decision to commit or recommit.

Mr BACON - When you say a lot of money, is there a rough figure you can put on that?

Mr EVERY-BURNS - Millions.

Mr BACON - Ten million? Five million?

Mr SMITH - It depends if you are talking about the specific cost of getting it going or the more fuller economic picture.

Mr BACON - Either or.

Mr EVERY-BURNS - No, but it is worse than that. It is not just the commitment cost; it is that you would then be running it through night and day at times when you knew the market prices are going to be well below gas cost. As an example, gas costs may well be $60 a megawatt hour in effect and you watch the market go to 30 and you have committed to running it so you are just burning money. It is not just $1 million to get it into service, it's the corporate view that you are going to waste money, so for the small amount you make in the peaks, which you would make money out of, you take the view that there is nothing in it.

Mr BACON - Because you have to run it 24 hours a day?

Mr EVERY-BURNS - Yes.

Mr BACON - Through that 2014-15 year, how often were you looking at those decisions? Is it a weekly proposition or -

Mr EVERY-BURNS - I can't answer it but it was well known what the market payments were. It was well known what the costs of the overheads were.

Mr BACON - So it is not under active consideration all the time, whether or not you run it?

Mr EVERY-BURNS - No, you had hydro plant there which is your -

Mr DAVY - Now it is under active consideration all the time.

Mr BACON - But at that point it wasn't?

Mr DAVY - It was not an option. At the moment we are committed to operating the power station in January and we have been actively considering the commencement time of its operation. During winter we had made public statements that we were contemplating putting the unit into service in October and we chose not to do that because of the amount of water that was around and fitting it into our dispatch and making that a profitable activity wasn't possible in October. Again it wasn't possible in November so we have put that off to January.

Mr BACON - What was the difference in the 2013-14 year and then the 2014-15 year in operating the power station, and why was it operated in the 2013-14 year but not in 2014-15?

Mr DAVY - There was a carbon price during 2013-14. That switched the economics quite considerably.

Mr BACON - And that was the only difference.

Mr DAVY - Yes, that was the main difference.

Mr BACON - The main difference or the only difference?

Mr DAVY - That was the main difference.

Mr BACON - So what are the other differences?

Mr DAVY - I can't tell you. It was a long time ago.

Mr BACON - But there are other things that have gone into the change in the way that it has been operated besides the carbon price?

Mr DAVY - At the moment we are in a state where we want to run the unit again after the work that we have done over the past few months. We had decided to run the unit in October pending the amount of rainfall that we received over winter and spring. We delayed that starting decision and now we are out to January.

Mr BACON - But there are differences besides the carbon price why the unit wasn't running in 2014-15?

Mr EVERY-BURNS - I think you might be reading too much into it. If I understand your question, when we first inherited the plant are you suggesting it ran a lot more when we first inherited it than it did subsequently?

Mr BACON - I am saying that the only year it didn't generate any power at all was the financial year 2014-15. In 2013-14 it was operated. The carbon price effected the numbers there but are there other reasons?

Mr EVERY-BURNS - Don't read too much into it. We inherited the plant and what we inherited was a plant that was operating contracts on foot and we had no experience, if you like, in not operating the plant and then understanding the content of contracts. I do not think there is anything more to it than that quite honestly.

Mr BACON - Really. So it is only the change in operation from Aurora to Hydro and the carbon price are the only reasons it would have been operated in that financial year?

Mr EVERY-BURNS - That is my view. There might be more to it but that is my view. I do not think there is anything more in there.

CHAIR - I propose to take a break in a moment. I am going to ask you a question not related to any of that. It relates to the remediation of the sites that were used for diesel generation this financial year. What is going to be the cost to Hydro for the purposes of remediating these sites?

Mr ALBERTINI - In our operational costs, which were $13 million, the site remediation is included in those costs. What the specific cost for each site is, I do not have that level of detail.

CHAIR - When does that have to be done by?

Mr ALBERTINI - It is all but complete.

Ms FORREST - Like a mine site you have to have it as part of your forward plan.

CHAIR - I have another question and you might need to take it on notice. The onerous contracts? I would like the detail of those contracts unless you have it here now. Isn't the onerous contracts you refer to? Note 16 on page 77 of your audit report.

Mr SMITH - Most of those onerous contracts will be to do with AETV contracts we inherited. I believe part of it was remediation of Studland Bay Wind Farm foundations, there may be a small amount for that.

Ms FORREST - I think the question was, is there any more to add on points one and two on page 77 of your annual report?

Mr SMITH - Most of it is for the AETV contracts.

Ms FORREST - The gas contracts?

Mr SMITH - I can't say all of it. Not just the gas contracts, there are other contracts.

CHAIR - Is there a chance of a breakdown between all of this, the remediation, and so on? I am happy for you to take it on notice if you need to.

Ms FORREST - The cost of each one, do you mean, Chair?

CHAIR - Yes.

Ms FORREST - The cost of the onerous contracts, the cost of the remediation, the cost of the remediation of Studland Bay Wind Farm foundations and all that.

Mr SMITH - We can get those. I would rather do that in this session.

CHAIR - If you can, and that is good at the end of the session.

Ms FORREST - Another follow up, chair, on a matter I asked before to finish off the financial derivatives discussion. Besides the MI contracts and ones listed on Sydney Futures Exchange, are there any other financial derivatives?

Mr DAVY - Yes, all of our electricity sales contracts with other counterparties are financial derivatives. While retailers sell physical electricity to customers, participants in the wholesale market sell all the physical electricity into the spot market and all the term sales agreements are derivatives. So all of our contracts with Aurora, with other retailers, are all derivative contracts - every one of our sales contracts.

Ms FORREST - Are there any others besides those? There are those, there are your contracts for the MIs, the Sydney Futures Exchange, any other financial derivatives?

Mr DAVY - To do with energy?

Ms FORREST - Yes. They are reflected somehow in the annual report.

Mr DAVY - That is the sum total.

Ms FORREST - That is all of them?

Mr DAVY - Yes.

Ms FORREST - Okay, that is fine. I wanted to clarify that.

CHAIR - This might be an appropriate time to take a short break.

Short suspension.

CHAIR - I understand there were a couple of dates or time you gave us that you wanted to make clearer.

Mr DAVY - There was a question put earlier about the storage level one year ago and they were at 26 per cent full then.

Mr EVERY-BURNS - 46 per cent today, so 20 per cent count.

Mr DAVY - I incorrectly stated the combined cycle unit began its long period of dry lay-up in July 2014, the date was 3 June 2014.

CHAIR - Thank you.

Mr BACON - Is that the carbon price came to and end and then it went into dry lay-up?

Mr DAVY - It was much the same time as the carbon price ended at the end of June 2014.

Mr BACON - In the first session this morning you said the decision was made in November to take the combined cycle unit out of dry lay-up. It is in use again and that was a commercial decision based on the spot price in Victoria. Is that fair to say?

Mr EVERY-BURNS - No. I sat at the table at the time. The reason we took it is because we knew we were short of water. That had already happened and Basslink was operating with no indication of their problem. We understood the intelligence in the electricity market is pretty good and when the electricity market understood we were going to be reliant on bringing in a lot of energy in over Basslink, which what we were doing, then the view at that time was it was highly likely market prices in Victoria would respond accordingly. We being in the situation where the average price we paid for power was very likely to be higher than what it would cost if ran the plant ourselves. That included the decision to commit it, get it on and make it happen. We took the view it was in our overall interests to do and there would be no commercial detriment in doing that.

Mr BACON - But it was a commercial decision driven by the low water storages, not a decision because of the low water storages, if you know what I mean?

Mr EVERY-BURNS - Yes. It was a decision not taken, in my view, because at that time because we thought we would need it to make up the dams. It was a decision we took because we believed it would cost us a lot in the alternative, if the prices in Victoria sprung and we were importing a lot of energy. That is the core of it.

Mr BACON - The expected prices over the summer period were forecast to be higher than they were at any period during the 2014-2015 financial year?

Mr EVERY-BURNS - You are rely on your trading team and others to estimate what the affect will be of hundreds of megawatts of import, when it was not happening in prior times.

Mr BACON - There was not time in the 2014-2015 financial year where there was a forecast of high Victorian spot prices for a significant period.

Mr EVERY-BURNS - I think there might be. I cannot answer that because the trading team put their views to us. You know every summer, from about December through until about March, prices in electricity markets are high, inevitably much higher than the rest of the year because of the weather and the air conditioning demand. It is inevitable they go up at that time. Normally, we would not be particularly worried about that. We are not relying on bringing power in from that source. But when you know you are reliant on bringing it in from that source, that is what triggered us to think about the alternative.

Mr BACON - The year before, you started making that decision in October 2015 and then made the decision in November 2015. In 2014 was there active consideration about the price over summer and what that was expected to be and whether or not at that point -

Mr EVERY-BURNS - Scott, there may have been but it was never brought to me and the board. The reality was, we could buy or not buy power according to what we chose over Basslink; if prices were high on the other side of Basslink, we simply did not use it. We would use the water we had in storage, which is the way the system was designed.

Mr BACON - How much was in storage? It is 46 per cent now and 26 per cent this time last year, do you know what it was in the corresponding period in 2014?

Mr EVERY-BURNS - No. It was somewhere between those two - I just do not know, but I can find out. We had no cause to be concerned about it. No issues were brought to us at that time.

Mr BACON - But it was brought to the board in 2015?

Mr EVERY-BURNS - Absolutely, we were following the weather events.

CHAIR - I go to note 14 on page 74 of the report where it refers to trade creditors and it is much higher than prior years. What is driving this? The figure was $85 million and it moved to $228.9 million.

Mr SMITH - We had a few more trade creditors than we expected because we had some systems issues. At year end we had more than we would normally have outstanding. With the payables we implemented the SAP system and we were still tuning that. That has been a major focus of my area. This figure was higher, because of that. There may have been some other factors.

CHAIR - It is a significant increase; we are talking about $85 million up to $228.9 million.

Mr SMITH - I can try to find out the exact breakdown of it.

CHAIR - It might be helpful because of the significant amount we are talking about. It may help the committee if you can provide a breakdown.

Mr DAVY - We will try to get it before we close today.

Mrs RYLAH - Are you trading terms back into normal trading terms?

Mr EVERY-BURNS - If I understand your question correctly, it is fair to say our diesel supply has been paid. Probably the gas that was over [inaudible] paid. The higher rate on diesel that we owed, that sort of thing, a lot of that has been closed out because the leases are finished and the mediation costs have gone. I have no reason to believe we are any different than normal at the moment. But certainly we were at year end because we had all this [inaudible] stuff that creditors requiring payments. Some of it would have been within normal terms, but a lot of it. We will get the details for you.

CHAIR - This question on note 18, page 78 - the loans from subsidiaries. Which subsidiary provides this loan facility? Is Hydro providing a loan facility to its subsidiaries?

Mr SMITH - This was a case of just tidying things up. Hydro has a number of companies associated with it, and one of the activities we did under the continuous improvement banner was to work out what balances were sitting where and then write them off, if appropriate. It is only in the parent column you have an impact, so there's no impact on the consolidated. It is just parts of Hydro owning parts of Hydro money and has been there for a long time. It's all in the same consolidated area, but we are writing them off to tidy up the accounts.

Mrs RYLAH - So it is a legacy issue.

Mr SMITH - Yes, it does not affect the consolidated accounts.

CHAIR - We saying that it will be fixing it up, tidying it up, so it will not continue?

Mr SMITH - Yes. That won't continue. We have cleaned it up pretty well and this is done in conjunction with our auditors.

Mrs RYLAH - I would like clarification on two separate points. Earlier we had a question from Ms Forrest regarding the transfer value, that is, the valuation that was put into the Hydro's accounts for the combined cycle unit and the valuation that has been more recently given as a sale value. Can you explain the differences between those and why those variations between the written down value and its sale value?

Mr EVERY-BURNS - In a high level overview, the combined-cycle plant is the one you are talking about. The combined cycle plant is relatively modern kit in very good condition, from the view of an engineer sitting back looking at plant that is only 10 years old, and when it came across it had a high value associated with it and the contracts, and that wasn't real from our point of view because it was loss making.

When the valuation was looked at, the kit was valued at about $100 million and that does not seem unreasonable to me from a distance. It was given by a valuer. The kit looked to be in very good condition and very capable and I believe it still is. The question is whether it is fit for purpose and in the Hydro system as we see today, it was something that requires high flexibility, high response output, in its normal operation.

The plant, which is a healthy plant, is a base load plant. It was designed to have gas feeding in one end of it all the time, 24 hours a day, and produce electricity out the other end, 24 hours a day. For it to be profitable you have to have a view that the average price of gas is running at about 'that level' and the average price of electricity that emerges from the planning is running at about 'that level' so you have a spark spread. You have a permanent difference. It means you are going to make money by operating it because once you put this plant in service it has to stay in service. It is a base load plant.

When we are reflecting on what happened over that two or three year period, it was obvious that a base load plant did not fit any need that we could foresee so it had expensive overheads associated with it, particularly if the gas price became more expensive and the electricity price started to fall, which it rarely did. The reality was that the gas price constantly sat above the electricity price years on end and hence the value of the contracts were negative. The contracts were seen to be onerous for the gas supply for example, and it was natural to not use it because it cost you money.

When you come to value it in the fullness of time, you discover that the world market had changed, the Australian market had changed. Gas prices throughout the world had increased and in Australia had increased, electricity prices were very stagnant in Australia up until six months ago. They were very low. So you are faced with a decision that you are operating a plant where you know that most of the time your electricity prices will not support the gas fuel that you are putting into it. When you come to value that, you find that its value is not a profit making machine and then the standards drive you back to what is the sale value of it and although it looked like brand new plant, when you come to look at that, the world had moved on and the cost value you could get in selling it was not all that high, even though it is a modern, decent looking plant in good condition. That was evidenced by the fact that we were able to put it into service within a month or two of call, and it operated almost faultlessly through a four-month period and produced the energy we required. There is nothing wrong with the plant; it is not a criticism of that. It is about the nature of the plant compared to the system that we have.

Mrs RYLAH - So the written-down value that came into Hydro's books when it was transferred to you was probably purchase price at some point divided by its expected life expectancy, give or take, assuming that there was good maintenance all the way along and there didn't have to be anything unexpected. That was either protracted on a percentage basis or on a flat basis. I do not know how your depreciation schedule worked. That was the value that was transferred in. When you went to sell it, that value has nothing to do with what you could get for it in a market place if you were selling it today, is that what you are saying? And that the world market had changed for base flow gas via a combined-cycle unit? Because there were a whole lot of these units on the market, the value of these units had plummeted?

Mr EVERY-BURNS - Yes, that is what we were told by our valuers.

Mrs RYLAH - There is a significant disparity between the written-down value and the sales value. It was nothing to do with some weird happening, it is just interplay of these two very independent and separate issues that you were looking at, and that came into effect and are seen in your accounts.

CHAIR - I have been lenient with members making long statements. This is about asking questions. I do not want to single you out because I have allowed others to make statements. If you can try to keep it to the questions that we need to ask.

Mrs RYLAH - I did ask a question at the end. I asked if that was a correct summary.

Mr EVERY-BURNS - It came across to us at a high book value. It was written down in the first year we took over. Then the valuations were subsequently changed, so we had even better knowledge of its utilisation, then later knowledge of its sale value in the market place. There were a whole lot of different things that played through in that period.

Mr BACON - When did those things occur?

Mr EVERY-BURNS - Just the dates we have been given. One was the transfer date when we took it on; then the others were the subsequent dates.

Mr DAVY - The biggest write-down was the first balance date that we had on our books. It was transferred in June 2013, and at 30 June 2013 there was quite a big write-down of the asset.

Mr BACON - To $99 million?

Mr DAVY - I think that was fair.

Ms FORREST - It is a bit silly that Aurora did not write it down in their books before they transferred it.

Mr DAVY - They didn't.

Ms FORREST - I know they didn't. I will ask the Attorney-General about that, but she may not have an answer either.

Mr EVERY-BURNS - We faced that, we had to consider that we got what we got. We did not believe it sustained the value that it was passed across at.

Ms FORREST - Is there any value in the energy security? I know it is not required for accounting purposes, but have you placed a value on it in terms of energy security? You said earlier you don't believe you will ever need it again. Does that make it a zero value?

Mr EVERY-BURNS - That does not mean it does not have assurance value. At the moment we are just standing back and letting the task force have its more independent view of what is going on. If we inject our view too much in to this we will be - we will just let the others have a go at it.

CHAIR - You need to be a little careful. I believe these are unprotected proof of evidence provided by Dr Crean. It is an uncorrected proof at this stage. I will need to be careful in allowing members to relate specifically to comment made, because as was said, the witness has not had an opportunity to look at it for correction purposes.

Mr EVERY-BURNS - I am happy for you to maintain your confidentiality. If people have that in front of them, I will quote -

Ms FORREST - It was a public hearing, not a closed hearing.

CHAIR - It was a public hearing but we need to let people know there is an uncorrected proof of evidence that was given. In other words, the witness has not had an opportunity to look at it and neither have we. I am providing it to all members at this time. As long as you understand that.

Mr EVERY-BURNS - As you understand, I am sensitive about Hydro's information, I am therefore equally sensitive about your information. It should be used properly.

CHAIR - Because it is an uncorrected proof, we need to be careful in asserting that statements in there are absolutely 100 per cent. We should be okay.

Mrs RYLAH - Short question. What impact do you think the growth in renewable energy world wide has had on the resale value of combined cycle ??

Mr EVERY-BURNS - I do not have any direct knowledge of it.

Mrs RYLAH - What do you think?

Mr EVERY-BURNS - World wide the growth in renewables is expanding and there is no doubt electricity markets in many places are over supplied which makes the existing fleet, whether it is gas turbines or anything else, less valuable. Ange, do you have some particular comments on that or evidence?

Mr ALBERTINI - The dynamics of burning gas to make electricity is not unique to Tasmania so that is a global phenomenon and often gas prices elsewhere are in fact more expensive than in Australia. The feedback from the consultants we use is it is just the economics really of producing electricity from burning gas.

Mr EVERY-BURNS - I think that is a fair comment. It is not just the penetration of renewables. That is an element, there is no doubt about that, but it is also the spark spread or the cost of fuel now coming up to be greater than the value of electricity that emerges.

Ms FORREST - Another area I will to in the annual report and talk about the IT costs. Page 117 of the annual report and on page 73, it looks like there is IT costs of $152 million over the last five years. It seems from note 10 on page 73 you are writing off about $15 million a year. What is this software that is being written off? I assume the hardware all gets included in the profit and loss, the planned equipment sorry, but the $7 million of software in 2016 and $14 million of hardware, a total of $21 million write-off for 2016. Can you tell us a bit more about what that is. It is a fairly significant,

Mr DAVY - Where are you quoting the write-off statement from?

Ms FORREST - On page 117 is the five-year capital works profile, information systems, how much you are spending on it.

Mr DAVY - I was across this last year because we had a particular concern.

Ms FORREST - Then your amortisation expense - $16 million in 2016 software at cost in tangible assets there. What are we talking about here? It cannot be a program to run the,

Mr DAVY - Looking at the row of figures for information systems, that peak in 2013 which is followed by the numbers in 2014 relate to the SAP software system that we implemented. We replaced all of our enterprise resource planning systems with a single SAP system. That was a large investment that replaced asset management, accounts payables, and Miles earlier referred to the delays in getting that accounts payable system working absolutely correctly. There was a bit of a hiccup with some of our creditors that Miles referred to.

Ms FORREST - You will not take a leaf out of Aurora's book with their billing system?

Mr DAVY - This was not a billing system. This is not a customer billing system expense. This is an enterprise wide financial, HR, asset management, account payable, inventory, purchasing system. We have effectively replaced much of our corporate systems in one go. That was that peak.

Ms FORREST - We are still spending about $20 million a year though since then?

Mr DAVY - Everything that we do is done almost with processes and all of those processes are automated in various information systems. Whether it is trading financial contracts offering our electricity into the spot market the information system by which they email the market operator despatches our plans and we put our bids into the market. As I said all the core financial systems. All the systems Momentum use for their business they are all software and hardware systems that require replacing from time to time. There is minor capex and major capex that add up to the $20 million to $30 million per year in a normal year. Then we had the peak through 2013-14 when we were replacing the enterprise systems as well.

I believe the number you are referring to relates to the rate of depreciation on those financial systems. I cannot find the exact note you are referring to.

Ms FORREST - Page 73.

Mr DAVY - I see you have referred to being amortisation expense but I cannot see where it makes the link between that and -

Ms FORREST - I am wondering what it is that is what I am asking.

Mr SMITH - What is the specific question?

Mr DAVY - What is the amortisation expense?

Ms FORREST - In terms of the software, basically what is being written off or what accounts for that figure?

Mr SMITH - It is pretty much as Steve has outlined. This table reconciles what is going in and out of that software balance.

Ms FORREST - It seems a lot of money for software. You have explained it is a fairly complex system.

Mr SMITH - Most software has a small limited lifetime. So the amortisation is usually much bigger than that of, say, a dam which will have a very long lifespan.

Mr DAVY - I think we can find out whether the amortisation row does refer to software or is that -

Ms FORREST - The amortisation of $16 million under software in the consolidated $14.5 million in the parent that relates to software.

Mr SMITH - I do not have a breakdown of that with me.

Ms FORREST - Are you able to provide some detail around that?

Mr DAVY - Where did you get the information it relates to software?

Ms FORREST - At the top of the column. Note 10 is a note all about software which we are required to put in. It is not just software it is intangible assets.

Ms FORREST - It is under the software column.

Mr SMITH - Most of it is software but I do not have the breakdown of that specific number with me now.

Ms FORREST - The depreciation in the previous things would relate more to the hardware wouldn't it than the software?

Mr SMITH - No, both. Both get depreciated because they all have a -

Mr DAVY - The software has very limited life so does hardware.

Ms FORREST - It is the second biggest figure. It would be good to have an understanding of the size of that figure. I think you understand what the question is.

Mr DAVY - If we take that on notice.

Mr SMITH - You want a breakdown of what that amortisation expense is?

Ms FORREST - Yes. It obviously relates to software because it is in the software section.

Mr SMITH - Yes, it does. Are you interested that we spent $17 million on software and amortised $15 million?

Ms FORREST - That is what it appears to be.

Mr DAVY - We will take the question on notice.

Mr EVERY-BURNS - I think you are more asking about the amortisation figure?

Mr SMITH - We have more software than just one year's expenditure on the books.

CHAIR - Do you have enough to take that question on notice? We will put it in writing in any event.

Ms FORREST - We need to break it up between hardware and software.

CHAIR - We will put the question on notice to you in writing that may be the simplest way.

Mr SMITH - I have an answer for one of the previous questions. This relates to the big jump in payables. The analysis I have back makes perfect sense, now I have seen it. Because the electricity prices went up so much because of prices in the market, that alone was $46 million of payables and would make sense because it jumped at that time, right over a year end. That would be the lion's share of it.

Mr EVERY-BURNS - Does that answer the question or is more required?

CHAIR - The rest of that would be made up of the software?

Mr SMITH - This has nothing to do with the cost of software it is because we were not paying our invoices as quickly as we could. We were having to do a lot of manual intervention which we have now corrected in nearly a year. That is not the main driver. The main driver was the big price spike.

Ms FORREST - Is this is the question I asked, Miles? We are talking about the increase in the break-up of other -

Mr SMITH - No, a separate question. It is one the Chair asked.

CHAIR - I think that is sufficient. That you, Miles.

Mr BACON - Can you confirm whether or not Hydro Tasmania is currently paying the facility fee to Basslink?

Mr DAVY - No. We have said we have offset the money we are due from Basslink against the money we are paying them for the facility fee. We have done that for the last three months.

Mr BACON - Since August?

Mr DAVY - I think it is September, October and November.

Mr BACON - That decision was made in September to stop paying the fee or offsetting and did you discuss this with the Government before you made that decision?

Mr DAVY - We have repeated what we have said publicly and that is all we are prepared to say.

Mr BACON - Can we go in camera?

CHAIR - We will go in camera later on. We will make sure we get in there in plenty of time.

Mr BACON - No more questions about dealing with Basslink?

Mr DAVY - No further questions about our dealings with Basslink.

Mr BACON - Have you had discussions with the Government about information you provide to the committee, whether or not you will not provide certain information?

Mr DAVY - There are some times, if we are asked to provide it, we have to ask interested parties and we have had conversations with the Government about documents they are party to. Yes, in that regard. In terms of overall answering -

Mr BACON - I meant about specific questions they put on notice to Hydro Tasmania.

Mr DAVY - Where they are a party to correspondence of the flow of documents, yes. But, no.

Mr BACON - If they say to you not to provide it, then that is -

Mr DAVY - That is the case with every counterparty to a letter or a flow of information, we need to get their permission. In the case it is like that, yes.

Mr BACON - There is correspondence between Hydro Tasmania you are willing to make public but the Government is not willing to make public?

Mr DAVY - No, we did not say that, not that I am aware of.

Mr BACON - If the committee was to ask for a letter from Hydro Tasmania to the Government and you were happy to provide it, you would check with the Government and if they are not happy to provide it, you will not provide it? Has that occurred?

CHAIR - We are talking about hypothetical here and that makes it difficult for an answer to be provided. Is there some particular correspondence you want to refer to?

Mr BACON - I think it is the draft corporate plan from 2014-2015.

Mr EVERY-BURNS - I have no knowledge of what you are referring to.

Mr BACON - Can we put that on notice to see whether or not that has occurred?

CHAIR - You need to articulate the question very clearly with the specific mention of that document so our witnesses know what you mean. Can you articulate it again, Scott?

Mr BACON - The 2014-2015 draft corporate plan, Hydro is happy to give that to the committee but the Government is not?

Mr DAVY - I do not think it is a question of whether we are happy or not , but it can only be released with the Government's permission and they have not given it.

Ms COURTNEY - Is that the same process with the Government, as with all other counter parties for other documents? The same process exists whether it is a government or any other organisation?

Mr DAVY - That is correct.

Mr BACON - Under which act?

Mr DAVY - The information is confidential and we are here voluntarily, so we cannot offer other people's confidential information.

Ms FORREST - Can I confirm if your plan for the capital expenditure spend, for the next 12 months is to spend $100 million?

Mr DAVY - In the 12 months we are in now, yes. It is in excess of that.

Ms FORREST - With regard to Momentum, it does make a significant contribution to the profit of Hydro, their parent company. What is the strategic value to Hydro of the ownership of the retailer, Momentum?

Mr DAVY - It is manyfold. Over the years Momentum, through the very hard work of the people who work there, is contributing a sizeable amount to our bottom line. There is also the benefit it brings us, that we have an offset to the fact wholesale prices can move up and down. As wholesale prices move down, having a retail business makes the revenues of the overall company much more stable, so it is mitigation against that. We also have a risk over time there will be a lack of liquidity or demand for financial products we might sell across the link into Victoria, so by having our own retailer we are effectively selling those products to ourselves rather than relying on their being a market from other purchasers. Those are the kinds of strategic benefits we identified when we built a retail business to start with. The fourth benefit is we have a more direct connection to customers. We understand customers better because, rather than engaging with the wholesale market, which is engaging with other people's customers through dealing derivative products, we are engaging directly with our customers with Momentum on the mainland. We can understand where the market is going and better understand what customers are going to be after next by having our own retail business.

Ms FORREST - The profit margins are not great in any sort of business. Our own state-owned business that runs -

Mr DAVY - I beg to differ. The contribution we have from Momentum is a substantial part of our annual result on average.

Ms FORREST - Is the plan to keep it? Do you see there is much greater strategic value in keeping it than selling it while it is doing okay?

Mr DAVY - Whatever we do with it in the future, all those reasons I identified will still exist. We will still need to have a way of managing all those issues and having a retail business is the best way we know of of doing all that.

Mrs RYLAH - In Dr Crean's evidence he commented:

> The moment the wholesale regulated price of electricity was reduced significantly with the new wholesale arrangements it became very inefficient to run Tamar Valley.

What is the regulated price of electricity in the sense of you pricing energy and the operation of Tamar Valley Power Station. How does that relate to the cost of your inputs, the gas. What is the interplay there? Could you explain that to me?

Mr DAVY - I think what Dr Crean is referring to there is that at about the same time as the Tamar Valley Power Station was transferred to us, a new regulated pricing methodology commenced -

Mrs RYLAH - By who?

Mr DAVY - The government of the day changed it.

Mrs RYLAH - State government?

Mr DAVY - State government. This is part of the reform so the reforms had many limbs but the ones that affected us were the transfer of the Tamar Valley Power Station and the associated contract, which I explained earlier in the day were in a company called [inaudible] Energy Trading and Marketing, but they also changed the way that they regulated the wholesale contracts in Tasmania and changed the way that energy part of the tariff for small customers in Tasmania were set, if I can make it that precise.

Prior to these changes, and there were a series of changes along the way but at about the time when the Tamar Valley Power Station was run initially, Aurora was able to charge their customers about the price of a new entrant Power Station so there was a calculation of what would it cost to run a brand new power station, similar to the Tamar Valley Power Station biocycle unit and that was effectively the energy part of the residential and small business customer tariff.

There were a series of steps where that slowly transitioned to another methodology and by the time we received the Tamar Valley Power Station, this new regulated pricing methodology was being put into an averaging algorithm and that regulated pricing methodology took no account of costs. It was entirely to do with the prevailing prices in Victoria and the supply and demand balance in Tasmania; what were the generation facilities, what is the demand in Tasmania, how much had it rained over the previous two years. Effectively it tried to replicate what would happen in Tasmania because it was connected to Victoria bearing in mind that there were changes to the supply and demand balance in Tasmania at the time.

Mrs RYLAH - So it went from a cost model to a market model?

Mr DAVY - It went from a theoretical cost. It wasn't the actual costs. It was a theoretical cost model to a more market simulation model. That is correct.

Mrs RYLAH - And a follow-up question: what was happening to the input cost, the gas cost, at that same time?

Mr DAVY - We inherited the same gas supply arrangements they had been using when they acquired the power station.

Mrs RYLAH - Okay. So the only significant variable then was the change in the wholesale regulated price?

Mr DAVY - Yes.

Mrs RYLAH - Changed the economics of the operation, the combined cycle unit in particular.

Mr DAVY - Yes, there were other changes that I think are of a commercially sensitive nature but there were other changes on the cost side but they weren't as material as was changing and the way that the revenue was collected from its generation.

Mr SMITH - Ruth's question on onerous contracts, I have a response. I have got a breakdown in front of me. This is on page 77 of the annual report; it is note 16. What I can say is that 90 per cent of more of that balance is made up of contracts related to AETV and there are individual contracts with third parties listed that we have valued but I don't think it would be prudent to say in a public forum but we do have a breakdown of them.

Ms FORREST - We can do that in the private session then.

Mr SMITH - AETV is 90 per cent of that number. It is possibly even more than that and that is made up of a number of different contracts.

CHAIR - The position that was the remediation part as well, we were interested in finding out how much of that was accounted for the remediation program. When we referred to the diesel generation and so on.

Mr SMITH - Of the site the diesel generation rehabilitation number was $1 million from memory.

Ms FORREST - There was the southern bay site remediation as well which would have been not quite that much, I would have thought.

Mr DAVY - I did gloss over one of the details to do with the new regulated pricing methodology. It does have a small component that relates to a new entrant but it is marginal and does not vary by very much. The way that the regulated pricing methodology is all documented and it is available publicly.

CHAIR - An all encompassing question, and I think you have answered it, but I just want to be assured, the state of Tasmania and the people in this state can be assured that if we go through a similar position that we have previously gone through at the beginning of this year that we are not likely to face the same strong issues of bringing in diesel generators and so on or is that a part of your risk management strategies moving forward if we went through a similar or even I guess worse situation than the one we have gone through.

Mr EVERY-BURNS - I did not talk about a worse situation.

CHAIR - Is that programmed into your risks assessment, a worse situation, and there could I suspect.

Mr EVERY-BURNS - All I said is from where we are today we are protected against a similar situation if it was to eventuate and that is similar to what we have been through with an

extended Basslink outage and the one in three hundred weather events we had we would not have the same outcome. In my view we would not have diesel generators on board, not expecting.

Mr DAVY - The storage figures two years ago were 33.8 per cent, which was a question earlier and we said we would get it.

CHAIR - We will close the public session and move in camera to address those issues that came up earlier.

Evidence taken in camera.

CHAIR - We are now back in the public session but we are out of time. Thank you very much for the way in which you have answered our questions. We will be providing some questions to you on notice. If there are further questions coming from that we will correspond again in writing to you to clarify any points and issues. I would not like to have to recall you. I think this is about the fourth go at it.

The committee is in a position of wanting to produce the report and put it before the Parliament early next year when we begin our sittings. We will be working on it between now and March next year, trying to get a position on it. The committee has taken a lot of evidence and information and it is not an easy task. Thank you all very much and have a great Christmas.

Mr EVERY-BURNS - Thank you very much.

THE WITNESSES WITHDREW.

Mr BRYAN GREEN MP, LEADER OF THE OPPOSITION, WAS CALLED AND EXAMINED.

CHAIR - Thank you again, Bryan, for coming back here. Is there any further statement you would like to make to the committee? There has been a lot of water under the bridge since we last had you here.

Mr GREEN - I believe Ms Courtney wanted me to come back, so I expect there will be a number of questions from Sarah. I want to focus, on the issue of energy security versus the commercial aspects of the Tamar Valley Power Station and the thinking of the previous government in that regard. There has been a lot said that we considered selling the power station, therefore we are as culpable as the now Government, who also suggested they wanted to sell it.

I want to refer back to my Energy for the Future ministerial statement, which was made in 2012. On page 34, it talked specifically about energy security. It said:

> Energy security has been a key focus of successive Governments. Knowing that we are able to deliver power to our major industrial, business and residential customers provides confidence and certainty to the Tasmanian economy.
>
> It was one of the key drivers that led to the decisions on Basslink and the Tamar Valley Power Station. The very real prospect of power rationing in the state would have put jobs in jeopardy and have been disastrous for Tasmania.
>
> In respect to the Tamar Valley Power Station, circumstances have changed since the decision was taken to acquire and complete the station. The rain that we have had in Tasmania since that time has changed the relative of cost of hydro versus gas-fired generation. While of course this is good news for our water storages and capacity to generate electricity from our hydro stations, it has reduced the competitiveness of a fixed cost structure gas fired power station in the short-term.
>
> It has not, however, changed the strategic energy security benefit that Tamar Valley Power Station provides Tasmania. This is a benefit that would not exist but for the exceptional work of the employees in Aurora's Energy Business in completing the construction of the Power Station on time and under budget. The Government's strong belief is the Tamar Valley Power Station is of long-term strategic asset for Tasmania that delivers a significant value through providing energy security.

Then I talk about the issues associated with the energy panel that we had looking at the Tamar Valley Power Station to see whether or not it ought to be sold as a going concern.

> As part of the consideration of the panel's work and other potential reform options, the Government has determined that the Tamar Valley Power Station, together with its associated assets and gas supply contracts, hold the most value under Hydro Tasmania's ownership. The Government intends to test its conclusion and will do so by seeking independent commercial analysis and valuations by the end of this year.

> Should the advice show that the state will achieve a greater value from the sale of the power station and related assets without compromising energy security, the Government will explore this further. Nevertheless, the Government will ensure that the power station is either transferred to Hydro Tasmania or sold to a third party if the sale price would realise a greater benefit to Tasmania before June 2013.

It is important in the context of what has been said about the process that we followed, which was passed by both Houses of the Parliament, that the intention to look at the value of the power station weighed against energy security was at the forefront of our minds at that time.

In context, Chair, I said to you on the last occasion that I would be more than happy to have all of the information that was provided to me leading up to my decisions made available to the committee, and I am not sure whether that is the case or not but I now have the information that was provided to me at the time. It is Treasury advice and will table that advice and give you a copy of it.

This advice was provided to me in 2013 and quite specifically it relates to all of the issues associated with energy security, the energy for the future policy and goes into a whole range of key findings associated with the Tamar Valley Power Station. The executive summary says the key findings of the strategic assessment are that the operating costs of the Tamar Valley Power Station are greater than the revenues available to it under prevailing market conditions and the power station therefore has negative value in either public or private third-party ownership. It says that very specifically in there.

The conclusion at the end of the executive summary on page 3 is that the Tamar Valley Power Station asset should be transferred to Hydro Tasmania, and that is exactly what occurred because of it was so important to us from an energy security point of view. I think it is important that this information be weighed against the information that was provided to the Government, if you can get hold of that, Chair. It says that the forecast operating losses of the Tamar Valley Power Station until 2017 and high-level analysis of relocation and new entrants costs indicate that it would result in a sale value that is insufficient to cover the majority of outstanding debts related to the asset.

Then it goes on to look at one very important matter, Chair, which I think is central to the whole committee's deliberations around the energy crisis, because it is our contention that decisions were made and in the end someone has to take responsibility for those decisions because they cost our state hundreds of millions of dollars. We now hear the Government talking about all of these unforeseen events but I remind the committee that this information was provided to me in February 2013. Page 17 of the document talks about issues associated with annual hydrological inflows equivalent to those experienced during the worst 2005 and 2008 droughts, failure of Basslink which renders it out of service for a period of 60 days, major power station failure, major failure of transmission network, late winter rains or dry summers leading to the depletion of reserves of Hydro Tasmania's medium to long-term storages. It then says in the second paragraph down from that:

> However, the analysis only considered individual scenarios and did not consider multiple contingency events. It would be easy to visualise an event such as a prolonged failure of Basslink at a time when storages are low.

The Government continues to say this was completely unforseen but that is complete rubbish weighed against the advice that was provided to me at the time. It continues:

> In addition, catastrophic failure of Basslink such as multiple cable breaks or losses of transformers could render it out of service for a period in excess of 60 days.

That is exactly what occurred. It goes on:

> However, the existence of the asset, particularly the CCGT, does provide an additional layer of energy security supply. Given the significant negative impact on the Tasmanian economy of electricity rationing, it is desirable to retain this additional level of security.

It goes on in relation to the energy security associated with the combined-cycle unit, and in the end it comes up with the recommendation, which obviously the Government accepted, that we transfer the asset to Hydro Tasmania.

Weigh that against the language that was being used up to the point of sale. It is important to look at the decisions that were made leading up to when the press release went out from Mr Groom, which says very specifically:

> The Hodgman Liberal Government is working closely with its energy businesses to ensure we are managing their costs more prudently and focus on the delivery of high-quality customer service.
>
> The former Labor-Greens government burdened Hydro Tasmania with the transfer of debt associated with the purchase of the gas-fired Tamar Valley Power Station in 2013. Labor inexplicably paid $160 million above the actual value of the Tamar Valley Power Station. Tasmanian taxpayers are being forced to bear the burden of this additional debt.
>
> As outlined at the GBE estimates last year, Hydro has been considering an option to divest the combined-cycle gas turbine at the Tamar Valley Power Station and running the remainder of turbines as peaking units. The turbine has been sitting unused since June 2014.

- which Hydro seems to have forgotten this morning.

> The Government has today given approval for Hydro Tasmania to decommission and sell the combined-cycle turbine. This will allow Hydro Tasmania to rid itself of a redundant liability and reduce debt.

That is what the Government was saying. It goes on:

> Importantly, Hydro has consulted with staff and unions today about the changes and provided operational support. Hydro Tasmania will seek to maximise redeployment opportunities throughout the period to minimise job losses.

My response to that was that they needed to show the modelling as to how they could possibly -

Ms COURTNEY - Point of order, Chair. We only have an hour and the member is reading out media releases.

Mr GREEN - I will only be a couple more minutes.

Ms COURTNEY - So a quarter of the time?

Mr GREEN - It needs to be laid out, Chair. At that time I said the Liberal Government needs to prove to Tasmanian energy users that we are still protected against severe drought if the Tamar Valley Power Station is to be sold. That is the essence of what I had to say. I would point you to Hydro's own projections, as was leaked to us by the fake Don Challen - and it has never been denied - that if you look at the actual green line at the time they were making the decision to get rid of the Tamar Valley Power Station, we were heading into what is the black line, which says 'risk extreme'. That is how the decision was made. If you look beyond that, in November 2015, when they were talking about starting it back up, Mr Flack said:

> Hydro remains committed to the sale of the turbine and retains a strong record of managing the state's energy security.

Ms COURTNEY - Why did you leak the Treasury advice you have just tabled to the *Mercury* before tabling it to the PAC?

Mr GREEN - The *Mercury* was seeking information and the information came to me and I provided it. It is not Cabinet-in-confidence, so what is the problem?

Ms COURTNEY - Have you sought legal advice that it is not Cabinet-in-confidence?

Mr GREEN - I have not sought legal advice; it is not Cabinet-in-confidence.

Ms COURTNEY - So you are confident with your view that Treasury advice provided to you when you were minister is able to be released publicly?

Mr GREEN - As far as I am concerned it is, yes.

Ms COURTNEY - So you did not seek legal advice? You sought your own advice on that?

Mr GREEN - Do you have a problem with me providing it to the committee?

CHAIR - Just ask the question, if you don't mind.

Mr GREEN - No, I did not seek legal advice.

Ms COURTNEY - Why not?

Mr GREEN - Because it is information that is relevant to issues associated with the decision-making of this Government.

Ms COURTNEY - Will you continue to leak advice throughout the coming years without seeking legal advice as to whether you are able to do that?

Mr GREEN - I provided the information I have now provided to the committee. It is public information. I have tabled it here and it has been reported. I can understand why you would be nervous about it, because effectively you weigh this information against the information that would have been provided to your Government, which I put it to you would be exactly the same. Yet you went ahead and made a decision which cost us hundred of millions of dollars.

CHAIR - Order. I want members to be conscious of the fact we need to stick to what this inquiry is about and the terms of reference we are dealing with as well. I prefer not to go into any issues that might come out of the other place, with the problems in that area. Please ask the questions. Answer the questions, if you don't mind, thank you, without any indication of concern there might be between different organisations and different governments.

Ms COURTNEY - Mr Green, I would like to turn your attention to dividends. Isn't that a conspiracy theory of yours in the making that the value of the Tamar Valley Power Station was in fact just something you made up? In July 2015, a valuation was given for the Tamar Valley Power Station at $75 million, almost a full year after it was set in the budget of the Liberal Government of 2014. Doesn't this prove you are wrong in the allegations you are making publicly?

Mr GREEN - No, not at all because what you are failing to take into consideration is that evidence, as I understand it, was provided to the committee that the incoming government was briefed that the value of the Tamar Valley Power Station was close to $100 million. Then the decision around a $75 million dividend from Hydro Tasmania was built into the budget at a time when Dr Crean had told the Treasurer there were no dividends available to the government. We said at the time, you will remember, we could not understand where that $75 million came from. No-one knew where it had come from. We did not know at that stage you had set headlong into effectively getting rid of the power station. It just so happened to coincide with a figure that was later provided, and has been provided to this committee, of $75 million, which lined up with the figure that appeared in the forward Estimates in the Budget.

Ms COURTNEY - Mr Green, on a question on notice provided to this committee from Hydro on 1 September 2016, Hydro Tasmania says it was provided with the $75 million valuation in July 2015. How are you asserting the Government could have known they would receive that valuation almost a year beforehand?

Mr GREEN - Hydro Tasmania had said to the incoming government that it was worth $100 million - or $99 million. I guess they wrote it down to $75 million. The question ought to be asked yourself. Information the Government has could enlighten you to that, not me. The decision-making around this, letters between the Treasurer, the minister and vice versa, and the discussions between Hydro Tasmania and their corporate plan, is all information the Government could provide to the committee to answer that question, not me.

Ms COURTNEY - Mr Green, it is just a conspiracy theory. As I have just highlighted Hydro provided that valuation a year after the Government put that in their forecasts.

Mr GREEN - This has all come to light, Ms Courtney -

Ms COURTNEY - Which proves your allegations are -

CHAIR - Let the witness answer the question and let us go from there.

Mr GREEN - The upshot is that the Government wanted to provide a cumulative surplus. $75 million appeared in the budget papers as a dividend from Hydro Tasmania. We know that the chair at that time was saying that there were no dividends available from Hydro Tasmania. Something had to change in the meantime. If there were no dividends under normal circumstances to the Government through that period of the forward Estimates, then a decision in the meantime had to be made to change that. It just so happens to line up with a figure of $75 million. That has come to light, it is true. We had not started running that argument at that time. We were asking questions about it at the time and it has since come to light that the $75 million happened to line up with a figure that was being put to the Government by Hydro at that time.

CHAIR - I will take another question, then I will move to another member, then I will come back again. If you can please stick to answering the question that is asked, I would appreciate it, rather than going off into other tangents. We are restricted by time.

Ms COURTNEY - Mr Green, you stated in evidence at the previous hearing that your government's policy was a 75 per cent dividend policy for Hydro. Was that correct?

Mr GREEN - Yes.

Ms COURTNEY - In testimony we heard from Dr Crean on Friday, he said that he was confident that Hydro would be returning to a profit of between $75 million and $100 million over the next five years. Could you please tell me what 75 per cent of $100 million is?

Mr GREEN - $75 million.

Ms COURTNEY - So under your government Hydro would have had a $75 million dividend.

Ms GREEN - You changed the dividend policy to 90 per cent, and -

Ms COURTNEY - I am suggesting to you, Mr Green, that under the forecasts -

CHAIR - Please let him answer the question.

Mr GREEN - I do not know whether you are trying to take me for a fool.

Ms COURTNEY - At the time we came into Government, if Dr Crean was suggesting was actually - as stated a couple of times last Friday - that he was confident that Hydro would return to profitability of $75million to $100 million over the next five years, a 75 per cent dividend under your dividend policy would be $75 million.

Mr GREEN - Why didn't you tell the Government that at the time?

Ms COURTNEY - That is why I am asking you the questions, Mr Green.

Mr GREEN - It is my understanding that the answer to that question is that that is not what Dr Crean provided to the government at the time.

Ms COURTNEY - Dr Crean provided that information to the committee. On his departure he saw Hydro having a profitability of $75 million to $100 million within five years, and under a 75 per cent dividend policy, which was a Labor policy, that would have resulted in a $75 million dividend. Is that correct?

Mr GREEN - It was outside the forward Estimates. Dr Crean told the government at the time, when the government came to office, that there was no likelihood of a dividend.

Ms COURTNEY - How do you know what Dr Crean specifically told the Government?

Mr GREEN - Because that has been well documented. I have seen it through right to information, effectively.

Mr BACON - Do you believe that the current Government would have received the same advice from Treasury as you received as minister?

Mr GREEN - Absolutely, and that is the point. I think that that is why it is important that that information be tabled today, for the committee's deliberation, Chair. It is important. I cannot see why Treasury would have changed their mind about that advice.

Ms FORREST - Bryan, the Treasury advice is helpful on this. It clearly says transfer the Tamar Valley Power Station to Hydro -

Mr GREEN - Which we did.

Ms FORREST - I am aware of that. I also know that once it hit Hydro's books it was written down significantly. Can you explain to me, because no one else seems to be able to, why it was not written down by Aurora before it was transferred to Hydro?

Mr GREEN - Because it was operating as a baseload station through that period, and its configuration changed as a result of coming over to Hydro. It would be used, not as a peaking station - that is incorrect - but it would be used basically as energy security. It was our insurance policy and that insurance has been built into the value from Treasury's perspective but from a commercial perspective it was written down.

Ms FORREST - Asking your opinion on this because you are not the minister any more. When it was transferred to Hydro in 2013, the AETV was valued at $100 million and the combined set-up was $98.8 million, not much difference. If you look at the values there, the CCGT in 2016 is valued at only $16.7 million. Hydro Tasmania say it is not necessary for energy security. They still claim that and they claimed it last year before the energy crisis and they claim it again now. Do you think the value of $16.7 million is a true reflection of the value of that unit?

Mr GREEN - No, I do not because I believe the combined cycle unit has massive value to the state as energy security. On a book price, it might be the case.

Ms FORREST - If you were selling it?

Mr GREEN - Yes. I am not privy to the market conditions. At the time, when Treasury, based on the will of the Parliament, had to seek advice as to the value of it, it told us within a very short period that the commercial of the station, that is, to be sold as a base load station, a going concern, if you could seel it in the first place, would lose money and would have to be subsidised and that is why the decisions was then made to transfer it. I could never ignore that advice, that the energy security aspect of it was so important. Had you ignored that advice and what occurred, under the scenario of the energy crisis, particularly given - and I have said this on a number of occasions -the Government was saved from itself because Basslink went down. If Basslink had not gone down, the whole process would have been completed. If this cycle had been one year later with this extreme drought, we would not have had it. The combined cycle unit generates in excess of 200 megawatts, which is costs millions of dollars to replace through that period of the energy crisis.

How is it tangible for the Tasmanian people to believe that it is important now to keep the combined cycle unit and the Tamar Valley Power Station intact, with gas contracts into the future, when we have 47 per cent storage? At the time, when our water levels were falling through the floor they did not run it at all. Now it is okay to keep it and it is smart to keep it and the Government is making some hero of themselves by keeping it now. At that time, when the decision should have been made to run it to store water, they did not. That is why I believe and most thinking people believe the Government made decisions that cost us hundreds of millions.

Ms FORREST - I questioned Hydro last year before the crisis in GBEs about this point of energy security and I was concerned at the time that they were saying it was not important. I want to take you back the Treasurer's advice and you referred to this on page 19. [inaudible] the strategic value of the Tamar Valley Power Station, under state ownership of this time, exceeds the potential sale to a private third party … only because the sale on terms that would be considered acceptable to the Government is highly unlikely' - I assume that means market price. 'In the situation where the Tamar Valley Power Station is transferred to Hydro Tasmania', which it was, 'all the AETV assets should be retained in state hands, at least in the short-term'. What is your understanding of the short-term there? Short-term and long-term can be different things to different people.

Mr GREEN - That is right. It was important the Tamar Valley Power Station became part of Hydro's generation mix. Decision-making beyond that point, some of the smaller, peaking-type gas turbines et cetera, all needed to be worked through to understand whether they were worth holding onto. If you had the Trent unit and the combined-cycle unit both sitting in situ, ready to go, then that might have been the balance you needed. I bought the small peaking stations back in the early 2000s when we had the drought then.

Ms FORREST - That broke the drought.

Mr GREEN - That is right. They are not necessarily efficient. They are gas in through a jet engine and power out the other side. At least initially keep it all, but then work out what the best design to provide for energy security going forward.

Ms FORREST - I have asked this question a number of times have not received an answer. When the decision was made to purchase those, and you were the minister at the time, when we debated it in Parliament the supplementary appropriation was passed for that one purpose and that was to purchase the power station. I understand the ACCC said it could not sit with Hydro

because it was a monopoly generator, so what has changed? How can it be that we could again, under the same government, transfer it to Hydro and not be anticompetitive?

Mr GREEN - Because effectively it was not to be used as a baseload station from that point on, and as I understand it, it is used as a supplementary generation within the mix.

Ms FORREST - When it was purchased, it was purchased as -

Mr GREEN - To provide competition. They were competing directly with Hydro Tasmania and there was a lot said about that at the time and the regulator was involved.

Ms FORREST - Was that the intention?

Mr GREEN - Yes. They had to run it commercially at that time.

Mrs RYLAH - Mr Green, under your government, you made a decision to transfer the Tamar Valley Power Station to Hydro Tasmania. It was a government decision, it was not Hydro's decision. There was an expectation for optimisation of its use. What did you expect Hydro to do when you have just outlined that it could not be baseload and that it was very expensive to run?

Mr GREEN - We expected them to keep the power station fit for purpose in case of a drought or issues associated that could compromise our energy security.

Mrs RYLAH - What did you expect would happen to the valuation, because as Ms Forrest has already pointed out, Aurora Energy did not write down the value of that asset? You burdened Hydro with this grossly overvalued asset that you are saying cannot operate as it should have operated, as a baseload power unit, because that is what it is. You are telling them they cannot do that and you are putting it into Hydro. What did you expect Hydro would do?

Mr GREEN - Any responsible minister has to weigh both sides of the argument. Obviously Hydro Tasmania would have preferred not to have the Tamar Valley Power Station but in the end the got it effectively for nothing.

Mrs RYLAH - And $100 million of debt.

Mr GREEN - The upshot was I had advice, and this is where the Government has gone so horribly wrong. All the advice I received related to issues associated with energy security, security issues associated for the state for foreseen problems eventuating, and that is why the decision was made. It was my expectation that they would have to maintain the power station to effective operating standards as insurance if we needed it in the future - and we did.

Mrs RYLAH - You are saying to Hydro to take $100 million of debt - that is not giving something to someone for nothing. That is $100 million of value you have transferred into their balance sheet and written off $100 million from the people of Tasmania, who own Hydro Tasmania. You also said they had to maintain it in operating condition but could not use it from base load, which is what that unit is made for. What did you expect them to do in terms of the valuation of that unit?

Mr GREEN - I did not expect them to sell it.

CHAIR - The answer has been provided. We can move on to another area.

Ms COURTNEY - Mr Green, you have just talked about the importance of the Tamar Valley Power Station for energy security and about it being insurance, if needed. Can you explain to the committee why, under your watch as Energy minister, energy security was never formally transferred to Hydro Tasmania?

Mr GREEN - I am just trying to think of the sequence of events because I had ministerial responsibility for a period of time. The government had responsibility for energy security, I think, maybe as a result of our entering the National Electricity Market and issues associated with that. I may stand to be corrected there. In days gone by Hydro Tasmania had responsibility for energy security in Tasmania. The change, I assume, would have been made to facilitate that entry into the NEM.

Ms COURTNEY - But if in your eyes as a former government it had responsibility for energy security, why did you when in government not formally transfer that responsibility to Hydro?

Mr GREEN - Because we took the responsibility. The decisions that were made at that time were focused - and this is the balance, Ms Courtney - on the balance between energy security having an eye to the state's economy overall and what might be foreseen or unforeseen in the future that could have a devastating effect on our economy. That was always in the forefront of our minds. On the other side of that equation is potentially a government that only thought about these from a commercial point of view, that could risk our energy security - and that is your government.

Ms COURTNEY - If you assert you transferred the entity that would ensure energy security to a GBE, why did you not transfer with that the responsibility for managing energy security?

Mr GREEN - Because energy security is broader than that. That is one part -

Ms COURTNEY - As the majority producer of electricity in this state and being responsible for the hydro power, the operation of that plant, and the relationship with Basslink, why did you not transfer energy security to that entity?

Mr GREEN - We maintained responsibility for energy security under my watch. Don't forget that Hydro Tasmania is charged with the responsibility of acting commercially under the GBE Act. It exports large volumes of energy. In fact, it exported energy in December at a time when our water levels were critically low. There is always that balance and that was not a decision I undertook at that time.

Ms COURTNEY - Do you regret not undertaking that?

Mr GREEN - Not at all. In the end I took responsibility and I still am.

Ms COURTNEY - In 2012 when the Tamar Valley Power Station was transferred, you said, 'We will explore the option of selling the power station'. In 2014, after the Liberals came to government, you said the former government would have jumped at the chance to sell the plant. When Hydro had responsibility and ownership of the Tamar Valley Power Station beforehand you

said your government would consider selling it and afterwards you said you would have jumped at the chance. Why did you mislead the people of Tasmania if you did not believe the Tamar Valley Power Station should be sold?

Mr GREEN - Ms Courtney, I have just gone through the ministerial statement. You were not in the Parliament at that time so I don't blame you for this -

CHAIR - Order. To get this clear, you are asking that question on a statement the witness has made since that time.

Ms COURTNEY - He made a statement in 2012 and 2014.

Mr GREEN - What is happening here is people want to spin that and they are asking Ms Courtney to fire those bullets for them. This is the ministerial statement I read into the *Hansard* for the very important reason of allowing Ms Courtney to understand our thinking at the time. That was in May 2012.

Ms COURTNEY - Mr Green, if you had no expectation of selling the Tamar Valley Power Station -

CHAIR - Order. To get this clear, this is a question around the fact the witness has made that statement since that ministerial statement?

Ms COURTNEY - No, I am trying ascertain why Mr Green said he would jump at the chance to sell the Tamar Valley Power Station when he is now saying that when in government he did not intend to sell it.

Mr GREEN - The language I used at that time - 'jump at the chance' - was on the basis that had it been commercially viable to sell the power station as a going concern that would have been a good thing from a Tasmanian perspective. However, it was deemed and found out very quickly that wasn't the case. That is why I made the decision to transfer it, on Treasury advice, and I put it to you that the Government has exactly the same advice.

Ms COURTNEY - Mr Green, the statement about jumping at the chance was in 2014, after you had ceased to be Energy minister. You said, 'I would have jumped at the chance to sell the plant,' so we are reflecting on a time when you were minister and you are contradicting yourself and you are misleading the people of Tasmania.

Mr GREEN - No, I am not.

CHAIR - Order. This is the point I am trying to make as to when the statements were made so we have it right and I think you now do.

Mr GREEN - I was being honest about what we were trying to ascertain at that time. Had it come back from Treasury that the power station was worth more money, it could be operated commercially into the future as Babcock & Brown intended it to when they built it, or undertook to build it, before the global financial crisis, then that would have been a good thing for our state because it would have provided a competitor in the market but it wasn't the case. I would have jumped at that chance had it been commercial, had it been able to operate as Babcock & Brown had envisaged but I couldn't because of the advice we sought and the advice we received.

Ms COURTNEY - So in 2014, reflecting on your time when a minister, you said you would jump at the chance if it was a good price but with no intention about energy security?

Mr GREEN - No, that is not true because energy security relies on it being operated then if that had been the case as a base load station and that was always my intention. It was always the intention of the Parliament to establish that, not just me.

Ms COURTNEY - It seems to me -

CHAIR - Can we move on from this point?

Ms COURTNEY - I am happy to ask a different question, Chair.

CHAIR - Yes, if you don't mind.

Ms COURTNEY - Mr Green, I would like to turn your mind to prudent water management levels. Can you confirm that you were the minister for energy when the prudent water management level was lowered from 30 per cent to 25 per cent?

Mr GREEN - Yes.

Ms COURTNEY - And what role did you play in that decision?

Mr GREEN - None.

Ms COURTNEY - None at all?

Mr GREEN - No.

Ms COURTNEY - Did you question Hydro about that reduction of 5 per cent?

Mr GREEN - It is sort of documented but not, as I recall, described in that way at all at that time and from my perspective there was a board decision made. It was one that was taken into consideration as part of the additional energy that had come on line, the 168 megawatts from Musselroe at that time. No, I didn't have a formal role in that decision-making process.

Ms COURTNEY - You said before that the Government maintained energy security and it wasn't held within Hydro, does it concern you that Hydro would have lowered the prudent water management level by 5 per cent when they didn't have formal energy security that was held with you?

Mr GREEN - What you need to understand is that the prudent water management level is a figure. It never got below 30 per cent under my watch and it didn't get below 30 per cent until you came to Government. The point about prudent water management level is that we have been under 30 per cent, we have been under 25 per cent, on a number of occasions in my memory.

Water levels decrease beyond the prudent water management arrangement. The prudent water management level is put in place to trigger thinking about how you manage your system from that point and decisions around whether you run your back-up generation to ensure you save

water through that period, are the sort of decisions you make once you have gone below that point.

You seem to be putting to me that you are not allowed to draw it down below 30 per cent or 25 per cent. Of course you do but it is how you make decisions at that time. For example, how much energy you export through that time when you have gone below the prudent water management level. How much you generate at your back-up generation plant to ensure you save water through that period. That is what the prudency of the prudent water management levels was all about.

Ms COURTNEY - But when you had ultimate energy security as energy minister, were you concerned that Hydro moved this minimum water level by 5 per cent without consultation with you?

Mr GREEN - In terms of the arrangements at that time, no I was not.

Ms COURTNEY - So you weren't concerned at all? Did you, with the reduction of that 5 per cent, communicate that to the people of Tasmania that energy security was potentially being compromised because you held responsibility and you lowered the prudent management water level by 5 per cent?

Mr GREEN - No. What you are trying to do is suggest people were being irresponsible at that time. That, from my perspective, is completely untrue. With the backup generation that was in place, the Tamar Valley Power Station was in place, and 168 megawatts of additional energy generation had come on line through Musselroe, and our and Hydro's ability to manage the system, the decision was made at a board level, not by me.

CHAIR - Order. A member asked you the question, 'you were not concerned at al'? I do not recall you added 'at all' on it. I need to be fair to you.

Mr GREEN - Thank you. As a responsible minister of course any decisions were made. The whole question of prudent water management level being dropped to 25 per cent as an ongoing level was not something that was discussed with me. I know there were discussions about potentially taking it below that level. It never occurred. That was the context of my discussions with Hydro.

Remember the first meeting I had with you? I said to you the first order of business always when Hydro come to brief you were the water levels, what they are at, how much has come off them or how much has gone on to the them. That was always at the forefront of your mind. There was, at a point, a maybe around going below the 30 per cent but it never went below 30 per cent.

CHAIR - That clarifies that point.

Ms FORREST - It is important we acknowledge that water storage is one thing. The run of river generation is another. I do not know if you can remember this. At the time when the board made that decision, I do not know whether it was a decision to get it down to that or to let it get down to that before you worry about it. The run of river generation, at the time there was rainfall that kept those going, as well as the other generation capacity was in the state.

Mr GREEN - We were using Basslink a lot at that point. This is all around the carbon price.

Ms FORREST - Yes.

Mr GREEN - We used Basslink to build up storages with a view to drawing them down to get maximum value from the carbon price. That is absolutely true.

Ms FORREST - At a GBE hearing leading into the carbon tax, when they knew it was coming people said that they were basically banking the water.

Mr GREEN - Yes.

Ms FORREST - The board said that.

Mr GREEN - That is true. We were.

Ms COURTNEY - Mr Green, in the answer you just gave you said water levels were at the forefront of your mind and always the first topic discussed when you had a conversation with Hydro. If water levels were so important to you, why, at a time when the CCGT was in dry lay-up, did you not seek further advice about the minimum water level being dropped by 5 per cent?

Mr GREEN - Ms Courtney, I have already explained that. You are trying to make it some sort of stark decision that was made that was risky and should have been held and kept away. The point is we were never at that level in the first place. In the end all of the contingencies were in place. The water levels at the time, a whole range of things were taken into consideration. It is not nearly as you are trying to make it out.

Ms COURTNEY - Did you at that time seek any advice or modelling on this issue or did you simply assert yourself it was not seen as risky?

Mr GREEN - At the time of the decision making we were well above 30 per cent.

Ms COURTNEY - So you did not seek any formal advice or modelling?

CHAIR - Let the witness finish.

Mr GREEN - It was a potential, something that might happen on into the future if it was necessary, if it was absolutely required. But we did not get there. Keep it in the forefront of your mind that is a trigger point, as opposed to being able to utilise that water on into the future. It really is a trigger point.

Ms COURTNEY - So you did not take any advice or have any modelling done when that was lowered -

CHAIR - Order. You seem to get certain when you are making these statements. Just be careful how you put the question.

Ms COURTNEY - Did you, at this time, have any further discussions with other users of water, such as irrigators, about this decision?

Mr GREEN - We only bought the Midlands scheme on well after that anyway. Ms Courtney, you are drawing a massive long bow here. It is not even in the same context.

CHAIR - The answer to the question is yes or no.

Mr GREEN - No, I did not.

Ms COURTNEY - With all due respect, a 5 per cent lowering on the minimum water level, when you are responsible for energy security, is a very important issue.

CHAIR - Is that a question? Please keep statements out if we can. We want questions, that is what it is about.

Mr GREEN - I suggest you go back and have a read of this now, and you will understand what my decision -

CHAIR - We do not have a lot more time, so please keep your questions direct and keep the answers to answering the question alone without going into all the other side issues.

Ms COURTNEY - With regard to the decision to lower the water level by five per cent when the government was responsible for energy security, did you seek any advice on the environmental impact of that decision?

Mr GREEN - No, I did not, no. But Hydro Tasmania made the decision at a board level. Of course they have a whole range of responsibilities in that regard, Ms Courtney.

Ms COURTNEY - But not responsibility for energy security, so decision making regarding water levels is Hydro.

Mr GREEN - I had responsibility for energy security and it is called the Tamar Valley Power Station. That is where your government mucked up.

Ms COURTNEY - Which you would have jumped at the chance to sell.

CHAIR - Please do not make statements. We have gone through that. If you just ask the question.

Ms COURTNEY - I am fine, thank you, Chair.

Mrs RYLAH - I note Hydro Tasman has now valued the AETV assets at around $52 million, that is $35 million and about $17 million. From the information I have been able to get together, actual total cost of the Tamar Valley Power Station assets was over $330 million. Isn't this an indictment on the decision to purchase the Tamar Valley Power Station, knowing that you knew it was a long baseload, and all those other issues now see the assets at one sixth of the value. Wasn't it a financial indictment on the management of the Labor/Green government to purchase at that time at that price?

CHAIR - Order. I am trying to ensure we stick to our terms of reference. I am trying to work out where that position and decision comes in.

Mrs RYLAH - The value is a significant input.

CHAIR - Yes, the value has been brought up. I will allow the question.

Mr GREEN - Ms Rylah, the energy crisis cost the state hundreds of millions of dollars. Part of the reason for the energy crisis was the power station was not run at the time. From what I can see, the Government has done a full circle. They are back to effectively saying the Tamar Valley Power Station was a waste of money and it should never have been purchased in the first place. Mrs Rylah seems to forget there was a thermal power station before that. Babcock & Brown came along. I had gas peaking stations, it is true. We had converted the thermal power station to gas, which got gas to Tasmania. Babcock & Brown built a new, more modern plant that they could not complete during the global financial crisis. The Government, for energy security reasons and to make sure the project was completed, ended up purchasing it from them. Treasury advice at the time was it was a good purchase; it was good value at that time. Obviously gas, as a competitor weighed against water and other cheaper energies, became uncompetitive and it was very difficult for Aurora to operate in that market. The decision, after going to Parliament and weighed against the expert panel advice, was to either sell it or transfer it. Weighed against energy security, the government decided to transfer it.

Mrs RYLAH - At the time of the transfer of the AETV there would have been lower energy cost options.

Mr GREEN - What would they have been?

Mrs RYLAH - That's what I am asking you: what were they and were they considered?

Mr GREEN - If you mean bringing diesel generation to the state, certainly not. If you mean potentially distributed energy arrangements, no. If you're thinking about solar and other things being developed as part of that, we had embarked upon that to a degree. There was a whole range of things, but essentially the Tamar Valley Power Station was always seen as the best option.

Mrs RYLAH - So you did not consider maintaining a prudent water level of 30 per cent to maintain energy security for this state?

Mr GREEN - Chair, that cheapens the whole argument, particularly weighed against the questions that were just asked a moment ago. Mrs Rylah is trying to suggest that the value of the Tamar Valley Power Station is 5 per cent of our total water storages in our state. That is complete rubbish and makes it hard to run a reasonable argument when you have such ridiculous questions being asked.

CHAIR - The member is entitled to ask any questions she feels she should be asking in the circumstances. To suggest it is a ridiculous question is not acceptable.

Mr GREEN - I withdraw that, but it makes it hard to have a reasonable argument when you have such shallow arguments being put.

CHAIR - That statement is withdrawn.

Mrs RYLAH - I object to the comment that it is a shallow argument.

CHAIR - Once again, you are moving into an area that is not in the best interests of a witness in answering questions of a member. You have enough experience to understand that so I would ask you to be very careful when making those sorts of statements.

Ms COURTNEY - Mr Green, in July 2012 the carbon tax was brought in. As the minister responsible for energy security, did you see it as merely a coincidence that only two months later Hydro lowered its prudent water management by 5 per cent?

Mr GREEN - A lot of planning went into trying to reap the benefit of the carbon price for Tasmania, and we did. We reaped a significant benefit for the state and Hydro did an outstanding job in that regard. It propped our budget up post the global financial crisis, which was very important. It was always done on the basis that we knew what we were doing in building up water storages to use those to come back down.

Ms COURTNEY - Did you lower the prudent water level by 5 per cent just to prop up your budget?

CHAIR - Order. We have been through this and that question has been asked a number of times, so unless there is a new area you wish to go into -

Ms COURTNEY - I was wondering whether during the carbon tax strategy period - and this was a long-term strategy you had gone into - did you have discussions with major industrials and other stakeholders and users of energy around the topic of energy security?

Mr GREEN - My major concern with major industrials at that time was gas contracts.

Ms COURTNEY - You didn't have any conversations around energy security?

Mr GREEN - Energy security weighed against gas is an important part of it. The combined-cycle unit and the contracts beyond 2017 were so important to the state that they were at the forefront of my thinking at that time. We had to renegotiate new contracts. This was another important point associated with Treasury's thinking around this -

Ms COURTNEY - Point of order, Chair. My question related to the carbon tax and whether there were discussions with major industrials about energy security. I did not ask about gas contracts.

CHAIR - I accept the point of order. I ask the witness to stick to answering the question as we only have a few minutes to go.

Mr GREEN - The major industrials were consulted by the expert panel at that time and energy security was at the forefront of their minds.

Ms COURTNEY - Did you endorse the strategy of pursuing these energy exports during the carbon tax period at the cost of reducing our water levels?

Mr GREEN - I endorsed the sale of energy at that time to take advantage of the carbon price on the basis that the state's energy security was well and truly intact.

Ms COURTNEY - Did you seek advice about the state's energy security being attacked?

Mr GREEN - All the decisions we made were based on advice that energy security had to be taken into consideration. There was an easy path, the commercial path, or a tougher path that relied on making strategic, long-term decisions about energy security, and that is the path we went down.

Ms COURTNEY - You said before that a lot planning went into it and it was very fortunate because it helped prop up the budget. There seems to be a contradiction about whether you were looking at energy security or propping up the budget of the Labor-Greens government.

CHAIR - You need to be careful here. I cannot see where this is -

Mr GREEN - There have been GBE hearings since that time, Chair, and a lot of scrutiny.

CHAIR - I do not think it is a proper question in the circumstance.

Thank you very much, Bryan. We have extended our time yet again and thank you for your contribution here today in answering questions. I can inform you the committee is desirous of trying to get things together over the Christmas period with a view to producing a report to the Parliament when we resume sitting early next year. That is the intention of the committee at this time. Hopefully today will be the end of the witnesses the committee requires.

Mr GREEN - Thank you, Chair.

THE WITNESS WITHDREW.

Dr DAN NORTON AO, CHAIR, **Mr LANCE BALCOMBE**, CHIEF EXECUTIVE OFFICER, **Ms BESS CLARK**, GENERAL MANAGER, STRATEGY AND SHAREHOLDER RELATIONS, AND **Mr ROSS BURRIDGE**, GENERAL MANAGER, FINANCE AND BUSINESS SERVICES, TASNETWORKS, WERE RECALLED AND EXAMINED.

CHAIR - Welcome, Dan and your team. All of you took the declaration previously. These are public hearings that will be on the public record. The transcript will be placed on the internet in due course. Parliamentary privilege applies while you are in this place. Once you leave this place it no longer applies. If we get to a stage where you feel that the questions we are asking put you into a difficult position and you would prefer that evidence be taken in camera, then please ask for that and the committee will make a determination on it.

Quite a bit has happened since you were last here so if you want to add anything then please feel free to do so.

Dr NORTON - Since we came in previously an annual report has been released. I am happy to take any questions in relation to that. We now have a draft determination from the Australian Energy Regulator on our distribution determination. We are going for a two-year distribution determination. We already have a transmission determination which goes to the end of 2019. We are going to have a distribution determination that will go until the end of 2019, then from 2020 onwards. From mid 2019 onwards we will have a determination from the AER which will cover both transmission and distribution. The draft determination has come out and I am happy to, once again, answer any questions in relation to that and the impact that might have on our financial position.

CHAIR - Thank you for that.

Ms FORREST - I am really focused on the terms of your financial report. If we do not get to this year in GBEs, somewhere else. Most of the fall in profit before tax of $21 million, which is on page 56 of your report, I believe is explained by an increase in finance costs. That is on page 67, on debt restructure of $23 million. The debt restructure is explained on page 81. There is $583 million of debt refinancing leading to the loss. Can you talk me through and explain what has happened there?

Mr BALCOMBE - Before I talk about the debt restructure, I might talk about the revenue line too. We did see a reduction in revenue. Part was the shake of the transmission determination. The transmission determination runs from the 2014-2015 year through to the 2018-2019 year. We were in a transitional year in 2014-2015. We recovered more than what we normally would have done so from our transmission customers in that year. Then the subsequent four years were a lower figure. We did see some reduction of about $12 or $13 million in our transmission revenues as a result, albeit there was some over-recovery against transmission.

The transmission determination has an element of front end on it to that 2014-2015 year. We did see a reduction in some of our regulator revenue, but it was really around the shape of the determination we had on transmission. To be clear, there are a number of factors about that reduced profit.

Mr BURRIDGE - With the debt restructure, let me talk about what our policy is first; then I will talk about the restructure. Our Treasury policy, when we seek to achieve what our debt profile is, effectively one tenth in every year to 10 years, which is the regulator's way of pricing

the debt to us. $1.7 billion worth of debt, $170 million in every interval. That is our policy and what we aspire to.

When TasNetworks was established we inherited two lots of debt, Transend debt and Aurora debt. The Transend debt - because they reset their entire portfolio about May 2014 - came across in nice even one tenth amounts. It fitted nicely into our policy. The Aurora debt was lined up to their determination, came across in a very short-term fashion. We had three years of debt, about $500 million, $580 million across those three years. That was outside our benchmark. We noted and knew that was going to be the case. Nearly $600 million worth of debt is a lot to have maturing, both organisationally and for TasCorp, our central borrowing authority.

With Tascorp, we discussed how to deal in advance of this maturity, so we did not put pressure on the refinancing in the financial markets. Interest rates were very low, so this was a good time to lock in interest rates. The board of management, on the advice of management, took the decision to refinance most of that debt. There was a little we let mature, but most of that debt was bought back from the market. Tascorp went into the market, to their policy bondholders and purchased that debt back. That requires a payment between the prevailing interest rate today and the interest rate issued at, so that is where the loss comes from. That puts a net present value difference in the interest rates which cost us $23 million.

Ms FORREST - Is Tascorp the beneficiary of that?

Mr BURRIDGE - No, they take the loss and pass it through to us and then we reissue debate at the new lower interest rates. Over the two-year period we recoup that loss because its net-present-value neutral. We take the $23.8 million upfront and over the next two years we will get that back.

Mr BALCOMBE - We would have paid it anyway.

Mr BURRIDGE - You would have paid that $23.8 million over two years. We've paid it all the way upfront and replaced it with lower yielding debt. That is why we got $12 million back in the first year - it was the difference between what we would have paid and what we did pay. It washes its face; it's net-present-value neutral.

Ms FORREST - When you look at note 10 in your financials, on financial instruments, page 82, the fixed borrowing rate already had a fair value of $1 078 million whereas the carrying amount is $1 629 million. I presume you don't have to recognise this in your income statement at this stage, only if you renegotiate the loans?

Mr BURRIDGE - That's right. It's what they call the 'mark to market' at the time, so what the value of the loan would be if we were to buy the whole thing.

Ms FORREST - That would depend on interest rates, too.

Mr BURRIDGE - Correct. It fluctuates year on year. If interest rates go high enough, there could be a profit because we've locked in a lower rate.

Ms FORREST - On page 65, where you have this significant event with Forestry Tasmania, it appears you have all the revenue advance to account - or what's left - $8 million now the arrangement with Forestry Tasmania is effectively over. Did you receive the amount in the

previous period or was it Transend that received that? Was that the original deal and did FT have to pay revenue in advance in cash or was it just a book entry?

Mr BALCOMBE - We had effectively paid that cash and we had a liability which was accruing over the period of the connection agreement. It was a paper entry and all the cash had been dealt with in years past when this arrangement was set up.

Ms FORREST - What year was that set up?

Mr BALCOMBE - I don't know.

Ms FORREST - It was in Transend's day. In the Auditor-General's report, that was tabled last week and I haven't had time to look at that - the transmission line you took over had an impairment charge of $8.5 million recorded. Does that mean it now has a zero book value with you?

Mr BURRIDGE - It is effectively a book entry but it doesn't go into our revenue-earning grab because everything has been expensed in one go. For all intents and purposes, it is income but it has zero value.

Ms FORREST - What did you pay for it?

Mr BALCOMBE - We didn't pay anything. It is a transaction that was sitting on the books and we had a future obligation to provide a service against that line. When we built the connection asset we were paid for it but we didn't book all the revenue at that time. We had an amortising liability but we had to deliver. The asset and the liability were going to diminish over time but when we took it over we extinguished them because we weren't going to earn any future revenue against it because we'd dealt with it via this new arrangement. It couldn't form part of the regulated asset base so the asset was impaired and we were forgiven on the liability as well. We can give you some more detail on that if you like.

Ms FORREST - To me it looks like you are shifting the deck chairs between GBEs again and TasNetwork is being used as a bank.

Dr NORTON - This was not a benefit provided from TasNetworks to Forestry Tasmania. It was not a back door subsidy or anything like that.

Mr BURRIDGE - It was already on our balance sheet, the deck chairs changed around.

Ms FORREST - You did shift the deck chairs?

Mr BURRIDGE - Yes, on our own balance sheet not anyone else's balance sheet.

CHAIR - If further information is going to be of assistance, we will provide it to you in writing and take that on notice.

Ms FORREST - We will go to IT. I notice on page 71, under work in progress, you spent $25.5 million on software? Another $38 million still to be spent? Is that correct?

Mr BURRIDGE - That is correct. It is not just software, which is about $6 million. This is a configuration and building the system.

Ms FORREST - This is all related to Agilis?

Mr BURRIDGE - Yes, $58 million.

Ms FORREST - So the $4.4 million listed on page 71, that is all related to Agilis?

Mr BALCOMBE - I think not. We have any number of IT projects going on at the same time. A good example is one called our outage restoration management upgrade. This is a system we are installing so we have a much better coordination of our processes when we have network outages. At the moment there are a lot of manual processes and we struggle to know, it is a bit of left-hand right-hand. This will improve information flows and also improve information flows through to customers.

Some of you may have noticed in recent outages that it takes a while to get our website updated. That flows through to our media communications and things like that. This outage restoration management is designed to improve some of those processes between what is happening on the front line. When they complete a restoration all that was manual and it would be manual based on a three or five hour telephone hook-up and then it would get updated as rapidly as we could do it.

Ms FORREST - This is not part of Agilis?

Mr BALCOMBE - No, it is not. There is quite a number of smaller; the ORM system is about $3 million.

Mr BURRIDGE - We have about $12.5 million program works.

Mr BALCOMBE - Yes, program works on the underlying business.

Ms FORREST - Is some of this what you took over from Aurora when you took over the distribution asset?

Mr BALCOMBE - We inherited systems from Aurora. We realised, and I am comfortable Aurora would have realised too at that time, they needed to do some upgrades on this outage restorative management system. They chose not to because they knew there was a new management coming in, and it was better we re-implement that system and design it, as opposed to inheriting something midstream. There is an ongoing program of work for our IT systems right across the business. Overarching that is our Agilis project which is essentially our business transformation project.

Ms FORREST - Some of it seems to be depreciating fairly slowly. Is that what you took over from Aurora?

Mr BALCOMBE - It probably has a low written down value but the these things have a life of 10 years normally.

Ms FORREST - Hydro Tasmania spent $152 million on IT in five years. It seems we are spending a lot on IT in these energy businesses and the depreciation rates seem to be quite different. Yours seem to be quite slow, their's seems to be quite rapid in some areas.

Mr BALCOMBE - Ultimately, depreciation is dependent on what you think the future useful life is. So with the Agilis project our perspective is we will get 10 years out of that before we have to go through the next upgrade. We will form a view every time we do one of these upgrades or implementations on what the future useful life of that project is. ORM might have a five-year life because it may well be superseded by other systems that might come in behind that.

Mr BURRIDGE - In the scheme of things, even the IT and market system has been inherited from Aurora. It is a small amount in comparison to the entire value of the poles and wires and substations et cetera. As we spend a bit more and we have Agilis to finish, and we might have a few more IT things, the depreciation will kick up a bit to reflect the shorter term life of an IT project to the longer term 40 years for a substation transmission line. It is a very number in comparison.

Mr BALCOMBE - Fundamentally, this business is underpinned by information and technology. We have what we call the SCADA system that operates the transmission network and parts of the distribution.

Dr NORTON - System control and data acquisition.

Mr BALCOMBE - Thank you, Chairman. That is one that is vital to the business and it is run separately outside our corporate systems because we want to make sure to the extent possible that it is protected from penetration and things like that. That essentially is the system that keeps the lights on.

We then have systems that are the link between our business and the market, between ourselves and the retailers, which is that metering information, market information and billing information that goes out once a month. That same information goes through to AEMO. Even AEMO has visibility of the SCADA stuff as well. Then there are our underlying business systems. Agilis will deal with a lot of those fundamental systems such as our financials, our procurement, our government's risking compliance, HR and payroll, inventories and all those things. Then there are other systems about how we work; the way our work gets dispatched is to some extent automated and it would be further automated.

Ms FORREST - That is in emergency situations as well as routine?

Mr BALCOMBE - Yes, that is right. Fundamentally, information technology underpins how this business operates. We are very conscious that we have to spend that money wisely. We have to make sure we have the appropriate government frameworks that are overarching all that expenditure we do. It is something we can't walk away from as a business.

The way the future is looking for us, where customers are wanting to take more control of their own destiny in energy consumption, we are going to have to build portals and things like customer connections. We are about to release a portal next month where customers can apply online for connections and start to see how their connection is travelling through the process. Customers are demanding more information and that is only going to come through information technology.

Dr NORTON - Of course all this is part of our regulated determination. If we don't have adequate justification for it, it won't be regarded as justifiable expenditure.

Ms FORREST - I am sure you read the submissions to the inquiry. One submission suggested that the IT division is a little bit overstaffed and there are over 100 people working within the division. For the committee's benefit can you provide more information about what these contracts are? You have already touched on a lot of them, but what are all the people there doing? There are a lot of people. If you could give some context here. It is a lot of money being spent in the area. I accept it is a very IT-heavy business. It would be helpful to have more detail around that.

Mr BALCOMBE - Would you like that today or is it on notice?

Ms FORREST - Either now or on notice, whichever you think is easiest.

CHAIR - If you can answer the question, do so, but if not, if you prefer some time.

Mr BALCOMBE - I have described the underpinnings of why information technology is so important to this business.

Ms FORREST - The question really is, are we spending on things that are absolutely necessary or just nice feel-good stuff? There are plenty of other things the taxpayers' money could be spent on?

Mr BALCOMBE - No, there is no feel-good stuff in this.

Dr NORTON - We don't get revenue allowance to spend on feel-good stuff.

Mr BALCOMBE - To the chairman's point, all this expenditure gets ticked off by the Australian Energy Regulator, so all our project expenditure has to be supported by business cases or business case outlines.

Dr NORTON - The answer, in a sense, to the number of people who work in our IT area is changing all the time. We inherited from Aurora an outsourced contract for some IT services. We looked at that and decided that wasn't value for money and so we, under the appropriate clause in the contract, terminated that and as a result we had to bring onto our numbers I think about 21 people. So in a sense it looks as though we have added them. We were paying for them anyway but the decision was made to do that internally.

Ms FORREST - Did you have to pay out the contract or could you terminate without a payout.

Dr NORTON - No, we terminated without a payout.

Mr BALCOMBE - There is an 'and' to that last piece. We took on 21 people and we saved $2.5 million per annum and provided a better service by inhousing it rather than outsourcing.

Dr NORTON - That is getting into some detail but it is an example of where we looked at something, as it turned out something we had inherited but it could have been something that we

had put in place years before ourselves, had a look at it and decided it needed to be changed. The IT area sits under Ross and he is continually looking at our IT strategy and look where we are obviously going to have some changes that will occur once we get Agilis up and going and the number of employees we have in that area will change over time in response to our assessment of what is the most efficient way of doing that business.

Mrs RYLAH - I am interested to know what is the cost of the solar PV grandfathered contracts?

Mr BALCOMBE - In round terms it is about $13 million a year.

Mrs RYLAH - A year? So $26 million over the last two years?

Mr BALCOMBE - It was $13 million this year just gone and $12 million the year prior.

Mrs RYLAH - So it goes up because of -

Mr BALCOMBE - It depends on what the regulated feeding tariff is and we manage the gap.

Dr NORTON - And the number of people changes from year to year as well. So some people who are eligible for it fall off - become ineligible for it I think is a more polite way.

Mrs RYLAH - Yes, okay.

Ms CLARK - And we have to fund the gap between the 28 cent grandfathered rate and whatever the market rate is? So as the market rate moves then the gap can move as well.

Mrs RYLAH - Okay. That makes more sense.

Dr NORTON - Obviously that is a community service obligation effectively that the Government requires us to make that payment and we make it so we are not involved in the policy side of whether that is a worthwhile payment or not. We are not involved in determining the appropriate amount. That is done by the local economic regulator.

Ms FORREST - What is the time on that, Dan?

Mr BALCOMBE - 1 January 2019 it ceases.

CHAIR - What sort of impact on you when the grandfathering portion concludes?

Dr NORTON - Well, what it would mean is that instead of paying that money, that money would go to our bottom line and it would go out in dividends. I don't think we get any tax relief from it. So effectively the Government is deciding instead of taking a dividend stream, we pay 90 per cent of after tax profits as dividend, so 90 per cent of that additional amount would go back to the Government. They have decided to forgo some dividends in order to provide some benefits to these grandfathered customers.

Mrs RYLAH - So what percentage of the energy in the state comes from solar PV and how does that relate to that cost of approximately $13 million in terms of -

Ms CLARK - We might have to take that one on notice. From memory it is less than 1 per cent of the energy in the state is solar.

Mrs RYLAH - It is expensive? Is that what you are telling me?

Ms CLARK - The model. Once upon a time the feed-in tariff was the full delivered cost of an energy; now it is just the energy value of solar. It is basically saying that all round Australia the model is now that you get funded for the energy value. Just like Hydro gets funded for its energy value, a solar generator would get funded for its energy value.

Mrs RYLAH - But is only the people on the grandfather contracts who get that.

Ms CLARK - The people on the grandfather get the full delivered energy.

Mr BALCOMBE - There are about 80 megawatts of solar stored in Tasmania at the moment. But that assumes it generates at full capacity, the boiler plug capacity.

Ms FORREST - Given the associated costs of storms and floods and fire and everything else you can think of this year - I had a couple of cheques from TasNetworks, very nice, thank you; I did not even know the power was off, so there you go - but how much has that cost this year, above and beyond what you would normally expect?

Mr BALCOMBE - It was about $3 million.

Ms FORREST - In total or in excess of what you were budgeting?

Mr BALCOMBE - In excess of budget. Normal budget is a couple, so probably about five.

Ms FORREST - That is probably double what you normally.

Mr BALCOMBE - It has been a big year. Since February we have had what we call six major event days. They are days where the regulator allows us not to include that in our performance and [inaudible] calculations. They are pretty substantial sort of days when that happens. To have six in essentially six months, there is a new normal around here from a point of view of the volatility of the conditions.

Ms FORREST - These events happened in fairly inhabited areas, I guess. If it happened somewhere that maybe there are not a lot of customers, but it is happening where there is a big customer base, or is it just because of the extent of it?

Mr BALCOMBE - Yes, the July one was a big one. July in particular was problematic because we had snow, rain and wind. In the foothills of Mt Wellington, we could not get people in there for four days. Once we had them in it was restored in a day. There were times during that storm when we would restore and then something else, another tree would come down and it would clear the line.

One of the things that we are focussed on is how can we make the network more resilient to these events? I suppose by way of example, we had a community forum down at the Tasman Peninsula. The Tasman Peninsula has been impacted pretty hard by some of these events, and I

say some, not all of them. Some unusual facets of what has happened on the peninsula is that an event we had in April was a north easterly weather pattern. The ground was already starting to get wet. The trees are used to withstanding westerlies. With the easterlies they -

Ms FORREST - They were not bracing the right way.

Mr BALCOMBE - They were not. A lot of conversation we had at this community event, in fact, we have a paper going to our board this week about what are some of the initiatives that we can do to strengthen these potentially weaker parts of the network that are more susceptible to these storms?

Ms FORREST - Are you talking about trimming trees?

Mr BALCOMBE - Certainly trimming trees. Our vegetation management program we have upgraded. What we want to do is get our vegetation management program to a state where it becomes a maintenance regime. In essence we move around the state in a maintenance mode. At the moment the business is a bit reactive. There will be bits of the network that need cutting, say, on the foothills of Mt Wellington, and there will be another bit at Geeveston. What we want to do is to get totally caught up so we can move into a maintenance regime.

The second element is identification of hazard trees. These are trees that are outside the clearance zones, that we think present a hazard. They will be inspected, then we will start removing them.

Ms FORREST - Some of these will be on private land.

Mr BALCOMBE - They are, and that is the issue. That creates challenges.

Dr NORTON - Strickland Avenue in South Hobart is a classic example. If the bad winds go through Hobart, you can guarantee almost certainly the power will be out there. When you go -

Ms FORREST - Trees or branches.

Dr NORTON - Branches. As Lance indicated, what we have suffered this year more than perhaps in recent previous years is that the ground has been so saturated. These old trees have actually fallen over, the roots just come straight out.

CHAIR - Why do you say that creates a problem for you across private property? Surely the onus is on you to ensure the line is clear and protected? Wouldn't there be an agreement with private landowners?

Mr BALCOMBE - From the point of view of the specific area around the line, there is a certain zone we are able to cut-

Dr NORTON - A legal right to remove trees within that zone.

Mr BALCOMBE - But then you get out to where these hazard trees are. They are quite tall trees, and probably the best example is if you drive down past Murdunna you will see the two feeders that go into the Tasman Peninsula . The easement is quite clear and then there are these towering trees that sit outside the easement. You have to pick which one of those is going to fall

or which one has loose limbs et cetera. Notwithstanding, trees are not the only things that cause outages. You can get twigs and trees and blowing debris off trees that gets across two circuits and cause an outage.

There is a lot of engagement goes on with landowners. A simple example of how it is difficult to get it right is last week we were driving down to Port Arthur. We had just had a cut through there and we were saying, 'Why do they leave that tree there?'. The local lord mayor said she had a number of phone calls saying how we have gone too hard. This is one of these really hard things to get into balance. A lot of community engagement is required, a lot of consultation with landowners and education to ensure people are not planting trees under power lines. It is very challenging. You drive around and see the power lines are quite clear, but then you have these big towering trees in the vicinity, so it is very difficult to manage.

Ms FORREST - Your drive around the state is different from mine; I do not look at that but you do.

Mr BALCOMBE - I spend a lot of time being a passenger and it is amazing what you notice.

CHAIR - I used to draw my power off the Wilmot line, as it was known at one stage, and every time in a high wind you knew the power was going to go off.

Mr BALCOMBE - We have to look at ways to make a network more resilient in those sorts of conditions. We have to do it manageably to make sure we are not driving costs up.

Dr NORTON - We cannot prevent outages, so the next thing is to get the outage remediated as quickly as possible. The big challenge we have, especially in those storm events, is it is unsafe to have our crews out dealing with them. Our view, unapologetically, is that safety of the public in terms of downed power lines and safety of our crews is paramount. We will not put people out there until it is safe to do so.

Ms FORREST - I want to go to your debt, which is a source of fascination to me. With the Australian Energy Regulator's determination, has that reduced your rate of return and hence the amount you are able to charge for those determinations?

Dr NORTON - Yes, the draft determination affords us a lower recovery and will feed through into lower revenues.

Ms FORREST - If you achieve your maximum debt level, will that make it more difficult for you? How far away are we from that?

Dr NORTON - We have done some projections, but we are also mindful the final determination does not come out until six months time.

Ms CLARK - The way the determination works is the revenue is updated each year for the updated debt costs, so they refinance a tenth of the portfolio, so we all match our debt costs with the way the income is set. We will manage that decrease in revenue as a result of lower interest rates. We will also incur lower debt costs aligned with that.

Ms FORREST - When does the final determination come out?

Dr NORTON - In April. Notwithstanding, if we think we can operate within our covenants and we will probably be close to the current Tascorp ceiling.

Mr BALCOMBE - At the back end of the determination.

Dr NORTON - Yes, and that is something we could negotiate at some point of time with Tascorp.

Ms FORREST - What is your maximum debt level?

Mr BALCOMBE - $1.9 billion.

Ms FORREST - The Auditor-General always makes comment about your gearing ratios. They are not looking any prettier this year than they have in the past. Is that a concern?

Dr NORTON - No, and they are never going to look pretty for a regulated utility like us. To have a coverage of around $62 million you would be expected to be in that ballpark. Unlike other businesses, we have a regulated revenue stream. So there is an element of a revenue certainty, if you like. You can safely and prudently operate your business with the level of debt we have.

Mr BALCOMBE - $67 million is the cut-off.

Ms FORREST - Technically you could take on more debt if the Government saw fit to hand you a bit more?

Dr NORTON - Yes. We are probably at a point where we would not want to be taking on too much more debt.

Ms FORREST - I noticed in Queensland very recently the Queensland Government loaded up their network businesses.

Dr NORTON - We are not uncomfortable with where we are at the moment. If the Government, or a government, wanted us to take on a $200 million of additional debt in order for an act re-transfer or something like that, we would have to look very closely at that back because it could push us into an area where we are uncomfortable.

Ms FORREST - Doesn't it then become a balance - and this is a government decision, I guess - so if they load you up with more debt then you have the repayments that go with it, and then you end up paying less dividends because your profits are less, so it is swings and roundabouts.

Dr NORTON - Yes, that is right. Having said we have a regulated revenue stream, there can be uncertainties that can hit us. We could lose a major customer and we have to prudently manage our business against those sorts of risks. We would not want to be sitting right at the maximum debt you could prudently carry and have no headroom to cover a particular problem situation.

Mr BURRIDGE - I think that is right. Flexibility for a shock is the issue.

Dr NORTON - At some point, if we were loaded up with more debt we would lose that flexibility.

Ms FORREST - With the developments in battery storage for solar rooftop, how big an impact is that going to have?

Mr BALCOMBE - There are two ways you can answer that question. If the businesses stand here and watch it happen around it, then it will have an impact. Part of our focus is making sure our business and our industry is part of that journey. We could be the enabler. One of the things that can happen with batteries is they provide storage. With the storage they also provide the opportunity for people to share energy.

Ms FORREST - This is where I was going because there is a business opportunity here.

Mr BALCOMBE - Yes, and they are not going to do that without a network. The Energy Networks Association - Energy Networks Australia as it is now called - which is the peak body for network businesses in Australia, is shortly to release a document called the Energy Networks Transformation Roadmap. It contemplates these emerging technologies and how networks can be part of those emerging technologies.

We are also, as a business, starting to run some trials. You might have heard about our Bruny Island battery trial. Bruny Island is joined to mainland Tasmania by two cables. Over summer, when the holiday population moves down there, they exceed the capacity to the those cables. At the moment we have a generator which goes down there. We plug it in and that helps to meet the peak. With a couple of the universities and with help with funding from ARENA, they have provided grant funding where we are going to trial - people will be able to buy a subsidised solar and battery installation -

Ms FORREST - In grid?

Mr BALCOMBE - In grid, yes, and, with the help of some pretty smart software we will at times take over use of those batteries and put that energy into the network to help meet that peak and the customers will then be compensated for our use of that electricity.

Ms FORREST - I have seen it. It is fascinating.

Mr BALCOMBE - Yes, it is. It is a fantastic trial and we had more people apply for it than we had available positions and we are in the process of doing that installation.

Mr BACON - How many would there be?

Mr BALCOMBE - Forty. It is a pretty solid trial because we can spend many millions of dollars upgrading the cable to the mainland again, just to meet the usage.

Ms FORREST - Generally, the people will feed in when they are generating more than their batteries can store.

Mr BALCOMBE - Or it might be that they feed in at peak times and then they -

Ms FORREST - But you can set them up to do whatever you like.

Mr BALCOMBE - Yes. There is an element of control that we will compensate those customers for, so we are going to trial that technology. That is all part of this network transformation. Bess, you might want to talk a little bit more about where we are with the installation.

Ms CLARK - Yes, and the other thing I was going to say that links to that is that we had a major battery manufacturer come and meet with us last week and one of their messages is they see, there will be some people who go off grid and use a battery. However, they see their big market is people who do that arbitrage between the grids and their house and so in that regard the other thing we are working on is network pricing reform so people get the right signals about when you should store in your battery and when you should sell to the network so that we get the best use of all the investments people are making in the grid and into the network and so that is part of our long term pricing reform.

Ms FORREST - In the place we are building in Wynyard, we want to do just that and the electrician has gone to great lengths to look at the load, bearing in mind we are not there all the time, we are down here some time, but imagine someone who was living there all the time when the tariff is so low, why are people willing to store it? You don't get much but you don't pay anything either.

Ms CLARK - Yes, so we are working with retailers in the state and with the local regulator around standing off the pricing to start bringing some of those signals so people who have batteries basically charge and use them at the right times and that saves everyone money.

Ms FORREST - I am glad this is part of TasNetworks' focus. They advised us a few years ago and it was like they don't need to worry about it. This was prior to your time, most of you across that side of the table. No, like it was years and years away. It was already heading that way when I asked that some years ago.

Dr NORTON - It is hard to forecast exactly what it is going to be like in five years, 10 years, 15 years and part of it gets down to the cost of batteries which are going down but from our perspective we have to understand how it is going to impact on us, how we can leverage off it, how we can have a fit for purpose network that can provide the services that customers are going to want in the future.

Ms FORREST - How do you see yourselves making money out of this, or is it about not losing revenue?

Mr BALCOMBE - There are two things to think about. Part of what is going to have to happen is we have a regulated service which at the moment is clear cut but over time that is going to become grey because if you think about the sharing economy, about that network sharing, the current regulatory framework does not allow for that so it may well be that we start to shift that to what is called a contestable arrangement so you do that in a competitive business. It is pretty hard where we are not the sole supplier but there will be people who are going to start to market these products and we have to think about how we make it part of that so this is what this network transformation road is extending to.

We are thinking about what is the operating environment, what can the future look like and it is quite ambiguous because it is very hard to predict in 10 years time what customer behaviours

are, what technology is going to be, and then it is sort of suggesting what has to change. It is starting to have that examination about how we can adapt the current frameworks to what the future frameworks ought to be, so it is ambiguous but there has been some tremendous analysis done on this and it is going to be released about 7 or 8 December and we will be sharing that around the state.

Ms CLARK - Because it is ambiguous, the National Regulator has been asked to come up with a ring fencing guideline to make clear that our regulated businesses are costing and doing the right things for the right people with the right information for that regulated service, which is the monopoly of poles and wires service people take for granted. Then opportunities in other spaces need to be undertaken with a different cost structure and ring-fenced so we are not [inaudible] that we were being a regulated monopoly and we are competing in a marketplace. We will have to make sure we have the right cost structure and information sharing in the first instance. For us, the Bruny Island trial is a network support trial. We are paying the customers to discharge their battery to support the network. That is how it is being run at the moment and we will learn more generally.

Ms FORREST - There are other areas around the state that would be equally applicable. The west coast, which can get cut off every now and then and even at Circular Head, places at the end of the network.

Mr BALCOMBE - It is where we are starting to have to think about increasing in the capacity of the network. Anywhere we are at that stage, there will be a business case and a pay-off and you evaluate the batteries versus the individual batteries and also looking at large scale batteries. Transmission companies are starting to consider larger scale batteries on the network to avoid this upgrade. This is all very much leading edge stuff and is something we are going to have to have a look at.

Ms FORREST - In your capital expenditure program, will this have to be a bit more carefully considered? Rather than do a capital upgrade of a major transmission line, would the cost be much less to do the supporting battery storage?

Mr BALCOMBE - That is the analysis that would have to be undertaken.

Ms FORREST - That has not been done yet?

Mr BALCOMBE - Bruny Island is the test bed for that. We will analyse and get some data off that.

Dr NORTON - Whenever we had a cap ex on the transmission network, we look at where there are non-network solution and this fits into that. We will end up learning a whole lot of things from this Bruny Island trial about what works and what does not work and there will be complications we were not aware of. It is R&D. It has us trying to understand it and staying a step ahead of where things are developing.

CHAIR - For the layperson, it is difficult at times to work out the position you have and that of Aurora. How closely are you working with Aurora in this area because they talk about some of these issue? What is happening there?

Mr BALCOMBE - We have a working group we work very closely with and we catch up at all levels of the business on that. Our major customer is Aurora because they are the ones that build the customers. They are a major player and particularly when we are getting down to tariff strategies and things like that. We can do all we like with regard to tariffs and if the retailer has a different perspective on tariffs than ours, we want to ensure there is some flow through from the point of view of what we are tying to do. We spend a lot of time working with Aurora on that. With tariffs, we have to make sure it is an orderly transition because we do not want build imposts or price shocks or anything like that. We have start it because we cannot keep putting this off because that means if we do not have the right tariff arrangements, we cannot integrate the appropriate technologies and things like that. We work very closely with them.

CHAIR - It is interesting when you look at it. When you identify you have 280 000 direct customers and then you have the direct customers with the other, bigger industry, it is difficult at times to work out who Aurora's customers are and who your customers are.

Mr BALCOMBE - Yes. There is 280 000 meters, so they are our meters. We use all the information off those meters to bill Aurora. This is where the industry has changed a lot in the last four or five years, is that the word 'customer' has never been used in these businesses. In the end, if we did not have customers, we would not have a business. A key plank of our strategy is customers. We have other issues where we are doing connection work, restoration work, they are calling in faults and getting services from us, so there is a whole customer framework in our business where every action we take should have a perspective on what the impact is on the customer. We are seeing that right across the industry now. It has really swung that way.

CHAIR - I note from your corporate plan from your annual report that 'TasNetworks will continue to maintain downward pressure on the network component of electricity prices'. I guess it's an easy statement to make but what are you doing to maintain this downward pressure on prices?

Mr BALCOMBE - We have taken a lot of cost out of the business and continue to drive efficiencies. From the perspective of the opportunities that come out of the merger, without further investment in the business we have pretty well run that dry, so the further investment is coming through the Agilis project. To put that into perspective, when we inherited the systems out of Transend and Aurora, we had two general ledgers, three asset management systems, two HR systems and one risk system. They were all at the end of their live and had to be rebuilt. Quite rightly, those businesses chose not to embark on that because they knew there was a new business coming along. We are operating on hobbled-together systems, so it takes us a long time to get any information out of our business - say, three weeks to get any financial information. It is very challenging. We don't have a great deal of data in the business. What this Agilis system will do is give us access to good, accurate data - data that is in one database. So one source of truth rather than seven or eight separate sources of truth. That data is all in one place and we will have good processes around that. The SAP system we're putting in has inbuilt processes and you have to follow those. If you don't, it's at your peril. There is a big change of management investment we are undertaking around that. That will harvest some benefits, too.

Our corporate plan for natural projections shows us holding. We found approximately $8 million on the merger. That was out of a cost base of $176 million between the two businesses and a year later we re-established that cost base at $140 million. That is the targeted spend in real terms that we are holding. Once the Agilis platform is up and running, there are some benefits that will come off that. We will continue to look for efficiencies. It is about doing business

better. There are opportunities where we've had a lack of automation within the way we dispatch work.

A saying I have started using in the business, as are my colleagues in the businesses, is how we keep customer promises. When we turn up to do the work on the day, we turn up and do the work. There is probably a 10-15 per cent of time we turn up that we don't do the work, so there are opportunities to get the processes right. We have turned up and found the appropriate electrical contractor hasn't done the work or we have missed the timing and things like that. There are also lots of efficiencies about the way we do the work, as well as the business systems that underpin that. At this stage our intention is to hold costs in real terms, around that $140 million. Albeit we have had to accelerate a few things around that - the vegetation management program is still $3 million extra over this current financial year and the next one to get caught up. A lot of it is about the way we conduct our business and do our work and getting that efficient. Fundamentally we need that overarching business system, so getting the data and starting to measure things. Once we start measuring things, we can manage them.

Dr NORTON - It is on the capital side too, the capital expenditure. In our proposal for distribution, we have been seeing downward pressure on the amount that we are putting into capex. We saw that with the transmission determination as well.

Ms CLARK - With respect to the technology discussion, we are spending more money through measuring what is going on in term with real time with information systems. Then we can run the assets we have harder rather than building more. But we just need real time data to get the best -

Dr NORTON - It is operating costs and capital costs.

CHAIR - I am not so sure this question fits in the terms of reference, but I want to know it, who is responsible for the actual line from the poles into a property?

Mr BALCOMBE - It is us. We are into the main fuse. There is a fuse on a bargeboard. We [inaudible] into that fuse. But we also happen to own the meter.

Ms CLARK - Unless it is a private structure.

CHAIR - My question, coming from that is, do you, or how often do you go round and check all of the old fittings in that area? The reason I ask the question is that I am aware of a property at Dodges Ferry where an electrician arrived to do a job. He changed the meter over; you people were involved as well. The electrician arrived and looked at the pole and the wires and said, 'This is extremely dangerous. This should have been replaced months ago.' They contacted TasNetworks. They were very prompt and did the job very quickly. It was all well done. My question from that is, how often do you do that?

Mr BALCOMBE - I perhaps suggest we are not doing it often enough. Again, part of this is that having a good system where we can identify the existence of some of these assets. There is probably stuff - an example you have used - where it might not be on the system. We have to start upgrading our inspection regimes. Specifically, with those service attachments, we do have a future program where we are going to go and identify some of those assets and connections, probably over the next 12 to 18 months.

CHAIR - Thank you for that. They did it immediately. There were no hold-ups, it was well done.

Mr BALCOMBE - Part of the challenge is understanding the conditions. It is a lot more about condition monitoring and things like that. We will be doing that in the future.

Ms FORREST - This is hypothetical, but I know you said you manage the debt level, it is not outside the ball park or anything like that, but if the Government decides to take back a significant amount of the debt, what would enable TasNetworks to do that they are not doing now?

Mr BALCOMBE - I am not sure we would do anything different, nothing. The debt that we have, I think there was a question that we answered back in July about whether our capital structure constrained our capacity to innovate, the debt level that we carry does not constrain us to do what we need to do to run the power system, maintain and manage our assets, also look at innovation such as the Bruny Island trial. We are not constrained to do what we need to do by our debt level.

Ms FORREST - I think you have already touched on this, but what do you see as key risks to the business?

Mr BALCOMBE - There are several. Primarily is making sure we keep the major industrial customers in the state, working very closely with them. I think if you were to speak to any major industrial customer, they would argue that transmission pricing is still too high. However, it has come off a long way since we started.

Ms FORREST - They are not complaining as much as they used to.

Mr BALCOMBE - No, they are not. Part of that is our customer engagement program.

Dr NORTON - Their rates have gone down.

Mr BALCOMBE - Their rates have gone down, there is no doubt about that.

Dr NORTON - Because of the regulatory determination.

Mr BALCOMBE - I suppose safety is our next biggest risk from the point of view of public safety and safety of our -

Dr NORTON - I would have put that the other way round.

Mr BALCOMBE - Yes, you are right.

Dr NORTON - Safety, because we are in an inherently dangerous industry, the safety of the public and the safety of our staff is our biggest risk. There are fatalities in this industry. That is our biggest risk.

Ms FORREST - On that point, your lost-time injury rates; what is happening with those?

Dr NORTON - They are pretty good. When I say 'pretty good' you are never feel comfortable with any lost-time injury, but lost-time injury also covers a multitude of things. It may cover a minor trip to a significant injury, so it is a statistic is used across industry but it is not necessarily the most accurate measure of safe work practices.

Mr BALCOMBE - The thing we focus on mostly with safety is our proactive safety measures, so our hazard identification. We have a tool called LifeSafe which reinforces positive behaviours and identifies opportunities for improvement, but it is also based on compensation.

Ms FORREST - Is your CablePI still out there?

Mr BALCOMBE - Yes, it is.

Dr NORTON - There are a couple of other important risks need to be put on the table. One is our major assets, the transmission substations, because if you lose one of those it can have a major impact. We spend a lot of time with monitoring and maintaining those assets. The other major risk we face is bushfires. Causing bushfires is a risk because we have a liability. More generally bushfires and responding to them as we live in an environment where they are part of the environment. We spend a lot of time and effort trying to pre-empt our infrastructure causing bushfires. We cannot reduce that to a zero possibility so it is a major focus of attention for us.

The other emerging risk Lance has touched on is cyber security. That is an emerging risk for all businesses and in particular electricity businesses.

Ms FORREST - There are only two types of business: those that have been hacked and know it and those that have and do not know it.

CHAIR - The Huon River substation, what is the position and plans in relation to that asset?

Ms CLARK - That is line transmitted from Forestry.

CHAIR - Is it from Forestry?

Dr NORTON - That will continue to operate. We now own and operate it.

Ms CLARK - It is unusual. It used to be a distribution ring and negotiated transmission and now it is all a regulated asset for those services.

Dr NORTON - So it is still used.

CHAIR - Business as usual. The other question in relation to the meters and your responsibility there if you own it. Because Aurora, on their evidence projections said they would have responsibility for meters again in the future.

Mr BALCOMBE - There is a real change coming, which will be kick-off on 1 December 2017. All the meters currently sit in the regulator framework.

Ms CLARK - All the small customer meters.

Mr BALCOMBE - For the small customers, yes. What the rule stipulates is from 1 December 2017 any new or replacement meter will be dealt with in the contestable market . As part of that Aurora will appoint a metering coordinator, and then that metering coordinator will be responsible for provision of the meter and the data measurement of the meter. Here is a service transferred out of the regulated asset base into the contestable asset base and this is part of a real change. It has been promulgated by the Australian Energy Markets Commission and their view is that contestable market will start to drive more efficiencies in the market than if it was a regulated service. That presents a bit of a challenge for us because we have got about $43 million of regulated meters in our regulated asset base. We will continue to recover that over time, but once that period of recovery, once those meters have been fully recovered, we will not have access to that revenue any more.

Dr NORTON - We will not have any costs either.

Mr BALCOMBE - That is right. One of the things we are currently contemplating is where we may participate in and test the market. There is some advice going to the board so I will not pre-empt that at this stage but we are thinking about where we can participate in that. We have inherent skills in the market from the point of view of installation and such like.

Mr BACON - Compete against Aurora?

Mr BALCOMBE - No, we will be part of the service provision to Aurora. We could nominate as a meter coordinator or we could provide some service to a meter coordinator and we are still trying to work out where we go there.

CHAIR - Thank you very much for the way you have answered our questions and addressed our issues. We appreciate that very much.

The committee, for your information, hopefully we will have discussions over the Christmas-New Year period. We want to provide a report to the Parliament early next, at the beginning of the sittings next year if, we can. That is what we are aiming for.

Dr NORTON - If you have any questions we are more than happy to provide any information we can.

CHAIR - Thank you for that, we appreciate that.

THE WITNESSES WITHDREW.