

**Tuesday 6 December 2016 - Legislative Council - Government Businesses Scrutiny Committee A - Aurora Energy**

**LEGISLATIVE COUNCIL**

**GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A**

**Tuesday 6 December 2016**

**MEMBERS**

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

**IN ATTENDANCE**

**Hon. Matthew Groom MP**, Minister for Energy

**Ministerial Office**

**Mr Michael Connarty**, Senior Adviser

**Aurora Energy**

**Ms Caryle Demarte**, Chair

**Mrs Rebecca Kardos**, Chief Executive Officer

**Mr Grant Russell**, General Manager Customer Operations

**Mr Kane Ingham**, Group Manager Commercial Services

**Mr Chris Warr**, Manager Corporate Affairs & Stakeholder Relations

**The committee resumed at 11.40 a.m.**

**CHAIR** (Mr Hall) - Welcome, Minister. For the purposes of *Hansard* could you introduce your team to the table, thank you.

**Mr GROOM** - Thank you very much, Mr Chairman. It is a pleasure to be here for the GBE scrutiny for Aurora Energy. I would like to introduce Caryle Demarte, the chair for Aurora Energy, and Rebecca Kardos, the Chief Executive Officer.

**CHAIR** - Thank you, I will invite you to make an opening statement.

**Mr GROOM** - Thank you very much, Mr Chairman. I intend to make some brief comments and then hand over to Caryle for some brief comments and then Rebecca.

From the Government's perspective, we consider the last year to have been another good year for Aurora Energy and a continuation of the focus the company has had on operational efficiency and maintaining downward pressure on power prices, ensuring there is a clear focus on customer service and meeting customer requirements, importantly maintaining the good work in supporting vulnerable Tasmanians. There are some very good practical examples that demonstrate ongoing commitment.

They are also looking for innovative ways to be delivering services into the future. An example would be the work Aurora has been doing in relation to Pay-As-You-Go and making sure that service is a modern service and it can deliver the best possible outcomes for those who choose to use it.

From a profit perspective, they have had another solid year with a profit outcome of \$30.2 million. In terms of operational expenditure, that was \$8.6 million of savings which reinforces a similar result from the previous year. It demonstrates an ongoing commitment by the company to ensure it is being run efficiently in delivering quality services to the Tasmanian people but in a competent and sustainable manner.

With those opening comments, I will hand over to the chair of Aurora Energy, Caryle Demarte, to make some comments.

**Ms DEMARTE** - Thank you, minister. I am very pleased to appear before the committee today to discuss Aurora Energy's financial and operating performance for the 2015-16 financial year and the future outlook for the business.

2015-16 has been another positive year for Aurora Energy and continues to demonstrate the business' capacity to be a profitable, customer-focused, stand-alone Tasmanian electricity retailer.

Aurora Energy's strong performance continued in 2015-16 with a profit after tax of \$30.2 million, resulting in returns to Government of \$40.5 million. We remain focused on strengthening the business, finding cost efficiencies and improving customer service outcomes in order to continue to be competitive and prepared for new market entrants.

Prudent investment in core systems and technology has reduced our operating costs and improved our customer service outcomes. This included activities such as implementing a new telephony solution, upgrading our customer care and billing system and partnering with a new bill print provider.

In 2015-16 Aurora Energy's operating costs surmounted to \$36.2 million which was some \$8.6 million below budget. This represents an underlying cost saving of 7 per cent. As a result, Aurora Energy is well-positioned to achieve its target of a 10 per cent reduction in underlying operating costs by 2018-19.

Our submission to the Tasmanian Economic Regulators 2016 standing off a price determination and tariff strategy process also reflected the cost reductions Aurora Energy has achieved over the past two years, demonstrating our efficient operations as the regulated offer retailer in Tasmania.

In summary, it has been another strong year for Aurora Energy with the business able to navigate through a number of unique challenges whilst having a positive impact on the Tasmanian customers.

As evidenced by our strong financial position, Aurora Energy has been able to spend less whilst providing more services and support to our Tasmanian customers and community.

**CHAIR** - Thank you for that report.

**Ms KARDOS** - Further to Caryle and the minister's statements, I am really pleased to be here as well. Again we have had another strong year and I would like to take this opportunity to acknowledge the fantastic efforts of the people who make up the Aurora Energy team.

**Mr GROOM** - Hear, hear.

**Ms KARDOS** - Through their individual and collective effects is the reason why we are able to say the things that Caryle and the minister have just said.

Aurora Energy is made up of very proud Tasmanians who are passionate about the community they serve, the things they do, the support they can provide to all Tasmanians and the difference we can make in the Tasmanian community. I am very fortunate to be a part of that team and that team embraces our goals and strategies. It makes my job easy because, as you will see through our annual report, we achieved all but one of our performance targets for the year and that is through their collective and individual efforts. I want to acknowledge and thank them for all their efforts during the year.

We have continued to focus on our customers. We want to provide our customers more choice, greater customer support and evolved products and services, recognising the evolving and changing needs of our customers. We developed a new Time of Use tariff for residential and business customers that launched on 1 July this year. That is in recognition of changing customer needs. The tariff allows customers to shift their energy or change their energy usage within the home or with the business, and they can then have that acknowledged through the tariff.

Through our Voice of the Customer program we have continued to listen to our customers and we have expanded the reach of that program throughout the year. We are now listening to our small business customers as well as our residential customers. This gives us a greater capacity to understand the wants and needs of our residential and small business customers, how they view our performance and what we can do to improve it because there are always opportunities to improve.

We have streamlined our systems and processes, strengthening the platform to ensure we can be a contemporary retailer. Our Your Energy Support Program, our flagship program targeting vulnerable customers providing them with the additional support, reached over 4000 participants in 2015-16. As part of that program we will be able to increase the No Interest Loan Scheme energy subsidy program. As a result, a number of vulnerable Tasmanians or Tasmanians on low incomes were able to make energy efficient appliance upgrades that improve energy affordability and the amenity of their home.

We also partnered with Rural Business Tasmania this year to help Tasmanian agribusiness customers who in the early part of this year were affected by drought conditions and then in the latter part of this year through flood conditions in the north-west.

Aurora Energy, in partnership with the Tasmanian Government, is committed to further support this program through another \$1 million investment in 2016-17, ensuring we continue to support vulnerable Tasmanians and making sure we can make energy more affordable for them.

As a result of the combined, individual and collective efforts of the Aurora Energy team, I think we are very well positioned for the year ahead. We have developed a number of strategic initiatives designed to meet the challenges of the electricity industry on a local and national scale. Where competitions exist, we will continue to maintain our focus on customer attention. For our residential customers, where competition is yet to emerge, we will ensure we deliver value and bring them greater choice.

We are focused on creating and delivering value and providing choice for our customers, our shareholders and the Tasmanian community as a whole. We will continue to focus on improved customer outcomes to meet

evolving customer expectations and enhancing brand loyalty in an environment of reduced operating costs.

**CHAIR** - We are a stand-alone business in a small market and the question often arises, will a GBE be sold, at any time? Given we have that small, captive market in Tasmania, as you have at the moment, is there any opportunity to expand into the mainland market? Have you looked at those options?

**Mr GROOM** - We do not have any plans to enter -

**CHAIR** - There was originally, wasn't there? That was always going to be a case that Aurora was going to try to compete on the mainland?

**Mr GROOM** - No, that was not the model. In fact the model we have deliberately applied when it comes to Aurora Energy - what I might describe as the 'new Aurora' - is very much focused on things we have just discussed - efficient operation, delivering good quality customer service, assisting vulnerable Tasmanians, and doing everything possible to help with the broader effort to put downward pressure on power prices.

In relation to competition, it remains the Government's position that we are open for the potential for there to be sale of the customer list at some point. There are no active discussions going on. There has been interest expressed from time to time. Also we have had discussions from time to time in relation to some of the broader circumstances in the market. There are some people who have identified it is a small market. There have been comments on the extent to which that might be appealing. We have had discussions at various points, but there are no active discussions going on from the Government's perspective. We remain open to it, but in the meantime we have very deliberately worked with the company to ensure it is focused on the things that we have discussed - efficient operation, delivering good service to customers, supporting vulnerable Tasmanians.

**CHAIR** - Given the attractive and stable result this year, it could hypothetically be an attractive proposition for somebody to buy it, if the Government made that policy decision.

**Mr GROOM** - As I say, we remain open. I've been on the record saying the previous government took an absolute position. They basically declared they were going to sell. That process did not go particularly well, so we're not going to adopt that approach. We remain open, but in the meantime we have sought to work with the company to ensure it is focused on all the priorities we have identified, and that will continue to be our focus.

**Mr FARRELL** - Is that discussion between the Government and the board or the board and other interested parties?

**Mr GROOM** - Various retailers have expressed interest in having a discussion around the broader market and perceived barriers to entry at various points. As I say, the Government's policy position is to remain open to potential discussions. There are no active discussions going on. It is important the company continues to remain focused on being efficient and delivering good quality outcomes to consumers, making sure it keeps an eye on innovation and how services can be delivered better in the future, and doing everything it can to assist the Government in the broader objective of lowest possible power prices. Aurora has done an outstanding job. I thank Caryle, Rebecca and all the team at Aurora Energy for all their efforts. I believe it has been another good year. This is a company operating very well. It has shown a lot of commitment to good outcomes for Tasmanians. We very much look forward to continuing to work with the company to that end.

**CHAIR** - We talked about assisting low income people. It is a laudable aim to assist people to heat their homes and everything else, but there has been quite a bit of criticism, particularly from small businesses, the Small Business Council and others, that there is an element of cross-subsidisation out of the small business sector, which is probably the toughest business to be in anyway, into assisting low income people. What is your response to that? As a fairly major power consumer in an agriculture situation, we sometimes wonder. We are through the roof with a lot of our charges, particularly in the year we've had. How far does this cross-subsidisation spread across the community?



**Mr GROOM** - I appreciate the question, Chairman, because it is an important one to put some comments on the record on. Obviously, from the Government's perspective, we are focused on all consumers. We have to ensure that there is an eye to outcomes for all consumers. It is true to say that there have been some legacy issues in terms of cross-subsidy and the Government, together with the company, is seeking to address that but do it in a sensible way over time that can ensure that there are not adverse price outcomes for people. This is also part of the process that is being undertaken at the network level so it is both the network and then Aurora responding to it.

It is important to step back from it a little bit. When it comes to the regulated customer base, whether they be households or small businesses, the power price position in Tasmania is less, in terms of the price, today than when we came into Government by more than 2 per cent. We have been very committed to working with our energy businesses to ensure that we can put further downward pressure on power prices and deliver the best possible outcomes. There are legacy issues and Aurora, together with TasNetworks, is working through those to address them over time but to do it in a sensible way that ensures that there are not price shocks for particular customers. I am sure you would understand, Chairman, that if you delivered an outcome that caused a sudden spike in power prices for the most vulnerable in our community, it would not be a desirable outcome. We have to recognise the legacy and work through this in a sensible way.

There are broader issues that exist in the market that can impact those that are not regulated. We do have some upward pressure in wholesale prices at the national level. That has nothing to do with the Tasmanian circumstance; that is to do with national factors. It is in part as a consequence of additional costs associated with renewable development in the national market. It is in part a consequence of an upward price trajectory for gas in the national market. There is upward pressure from a wholesale perspective but what is really important from Tasmania's perspective is that we have been doing all we can to work with our energy businesses to put downward pressure. With respect to the network cost, for example, again they have come down and they are projected to come down further. That is the way in which we can seek to mitigate those potential outcomes. Rebecca, did you want to say anything further?

**Mrs KARDOS** - I read the Tasmanian Small Business Council report and they are quite correct that there is a level of cross-subsidisation but further to what the minister said is we have a tariff strategy that has been approved by the Tasmanian Economic Regulator who sets the price for standing offer regulated customers, small customers in Tasmania. As part of that submission we will be seeking to start the transition to cost-reflective prices. Because we have had a uniform tariff approach for the last six or seven years, what we have seen is that prices either go up or down.

On 1 July 2014, prices came down by 7.8 per cent but that was uniformly across all tariffs irrespective of whether it was small business or residential. Then in the year after that it was a 1.95 per cent increase and then a 3.43 per cent increase last year. What that uniform tariff does is mask the underlying cost movements so TasNetworks have been rebalancing the network element of those tariffs. Part of that is removing some of their inherent cross-subsidies at the network level and to start passing that through to the end customer, the small business customer or the residential. We will be seeking in a submission to the Tasmanian Economic Regulator this year that we can start the transition to moving to the cost-reflective prices - having prices that better reflect the underlying price movement year-on-year versus just a uniform increase or decrease as we have seen over the last three years.

**CHAIR** - So the process is that the submissions will go to the regulator and then will you look at it in-house? In dealing with that cross-subsidisation issue, how will that be - ?

**Mrs KARDOS** - We will make a submission. We make a submission to the Tasmanian Economic Regulator in May each year for the upcoming price period, which commences on 1 July of that year. We will make a submission in May once the board has approved it, which will say we want to start the transition. As part of our proved strategy, we have to demonstrate four key criteria to the Regulator and one of those is customer impact and how moving to cost-reflective pricing will impact on all Tasmanians and how it will improve the underpinning economics. That is part of the submission process.

**Mr GROOM** - The main thing from the Government's perspective - and we recognise the legacy issue and, as Rebecca has identified, they are working through a process to be addressing this - we make no apologies that we believe that should happen over time. There is fairness on both sides of this. We need to make sure there are good outcomes for vulnerable Tasmanian households more broadly, as well as business. It is fair for small business to be concerned about cross-subsidy but at the same time it is important we are not delivering an absence of fairness for households of vulnerable Tasmanians by suddenly jacking up power prices. We are committed to ensuring that doesn't happen, hence the commitment to do this in a sensible way over time. We recognise the underlying point.

**CHAIR** - You said about being 2 per cent down?

**Mr GROOM** - More than 2 per cent lower today than when we came into government.

**CHAIR** - Do you have any yardstick against other electricity retailers? Is it possible to provide that?

**Mr GROOM** - There are various measures - and Rebecca could probably go through some of them - but we would be at the lower end, as I understand it.

**CHAIR** - Could you take that on notice and provide the information?

**Mrs KARDOS** - Yes. The Tasmanian Economic Regulator does a price comparison report every year for small customers and we can provide a copy of that to the committee.

Further to the minister's point, the price comparison report shows that tariff 31-41, which the majority of you would be paying today, and tariff 22, which is a small business tariff, is in the low range comparatively when compared with other jurisdictions.

**Mrs HISCUTT** - You were talking about vulnerable Tasmanians and in your opening speech, minister, you talked about practical examples - and you might give us some of them - have you considered when you have been through all this with the vulnerable Tasmanians, when they reach rock bottom, where are they going to go from there once they have achieved all their savings? Can you please address on page 24 the agribusiness support program and tell me how many agriculturalists take up those programs? You talk about suspension of overdue accounts. Is that suspension, or is it elimination of fees, et cetera, on those overdue accounts? It all helps. Those bills are horrendous in agricultural circles.

**Mr GROOM** - I appreciate the question, and it is an important one. The Government is very committed to working with Aurora to make sure we are properly supporting vulnerable Tasmanians. There is no doubt a lot of Tasmanians do it tough and we have to make sure we are working to get the best outcomes for them in managing their power requirements, including bills.

As Rebecca has already alluded to, there are a number of things Aurora is doing in that context. One of the very successful one is the YES program - the Aurora Your Energy Support program - which is being done in conjunction with NILS, where vulnerable Tasmanians are afforded the opportunity to acquire energy efficiency products at a heavily subsidised rate to reduce the power bill pressure they might otherwise experience. I will shortly hand over to Rebecca to talk about that. You have mentioned those in the agricultural sector - and Rebecca has spoken about the collaboration with Rural Business Tasmania and some of the work Aurora is doing in that regard. I also make the point, and this might seem a subtle point, but it actually goes to the core. I have had the opportunity to go to Aurora and actually sit with them when they are dealing with Tasmanian power consumers on the phone. It is extraordinary, the level of service people are afforded, the professionalism, the genuine commitment to working through a problem someone might have in terms of dealing with their power bill pressure. It is truly outstanding and their working with community service organisations involved in this. They do a lot of work with the Salvation Army, amongst others.

This is a really important thing, because the new Aurora has made a deliberate attempt to become more customer focused, in tune and sensitive to the day-to-day pressures people deal with. The results have been very significant. I would appreciate, Rebecca, if you could talk a little about each of those elements.

**Mrs KARDOS** - I will also ask Grant Russell, our General Manager Customer Operations, to come to the table. He is the chief architect of the Your Energy Support program. Through his and his team's passion, they have been able to redefine how energy companies support vulnerable Tasmanians. The other aspect of the program is how we can connect more broadly with communities and the community service sector. That is how the relationship with Rural Business Tasmania came about. Elizabeth Skirving and the team do a fantastic job supporting our farmers, our agribusiness customers.

I do not think anyone here would debate how tough they have done it in the last 12 months. This calendar year has been particularly tough. Through our discussions with them, it has been, what can we do? What can we do more of to assist those customers? Through that relationship, we have been able to develop some targeted programs. I will get Grant to talk a bit more about that and the Your Energy Support program.

**Mr RUSSELL** - Thank you, Bec. The first thing I would like to say is we are very proud of the fact that we have helped 4000 customers in the last 12 months who have been going through difficulty. We have enabled them to keep the power on. That is the first thing. The key of the YES program and vulnerable customer support is to keep power on. It is in no-one's interest to actually lose power or build debt. Part one of the key strands of the program is to help with energy efficiency and consumption advice. How can we use power more efficiently and more effectively? That is a key YES has. The other aspect is we have moved away from the stick and taken a carrot approach. We actually incentivise behavioural change.

**Mrs HISCUTT** - Did you say a stick and carrot?

**Mr RUSSELL** - We have moved away from the stick and we have gone to the carrot. We incentivise behaviours. For those customers who participate and engage and drive down consumption - for example, we may consent to payments. If they make four payments, we will do a payment on their behalf, rewarding the positive behavioural change. We get very positive feedback around - this is the first time they have actually got something for doing the right thing. That is a very common thread we get through it. In terms of the actual initiatives, we have got a range of business and residential initiatives. We have in-home monitoring.

We have a trial we have been doing with Entura, which is regarding an in-home display so the customer can monitor consumption. We also have a team in the office who monitor the customer consumption, monitor the account, and actually interact with the customer around bringing down consumption, phoning them up when the consumption spikes to check nothing has happened. We will find things like there is a leaking boiler and those kinds of things, and we can intervene early and help. That is one example.

**Mrs HISCUTT** - Do you charge for that help?

**Mr RUSSELL** - No. That is part of the good citizen - the approach we actually take. It is in everybody's interests to manage the consumption and stop the customer from getting into financial difficulty, it is not in their interest and it is not in ours.

**Mrs HISCUTT** - It is like fixing a leaking pipe?

**Mr RUSSELL** - That is right. The earlier we can intervene, the better. We have the monitoring display. With No Interest Loans Network of Tasmania, we helped over 370 customers purchase an energy-efficient appliance. That is new. That is different. That was 60 per cent subsidy.

**Mrs HISCUTT** - What is your rate of repayment on those no interest loans? Are they pretty good?

**Mr RUSSELL** - That is a matter for NILS, but yes, NILS very low arrears. One of the other things we did, and launched at Agfest, was a usage calculator. We revisited with the staff and the stakeholders we have from Anglicare and others around how we build a usage calculator, to make it available so customers can take a greater level of control in each of their appliances and each room of the house. We have updated all that, made it more accurate and user friendly. That has seen significant increased use, so customers are using it.

We also have a new home energy advice program. We are going into people's houses with Anglicare. We are visiting homes, going through the home and explaining to customers how they can take practical steps, but doing it in conjunction with Anglicare. It is not only us turning up, but both of us turning up together taking a collaborative approach to manage consumption and financial stress. That has been very positive. It has been a really good approach.

Agribusiness, we partnered in two components. We supported Agfest and Rural Business Tasmania. We have an audit scheme and support for financial counsellors. To-date that scheme has been taken up less than we would have hoped in both parties. One of the keys we have to deal with there is how do we crack the audience around getting the farm sector to engage with Rural Business Tasmania and the financial counsellors - finding out how we make that happen and make it easier for them. We are still working with them around making that process easier and simpler and trying to engage.

**Mrs HISCUTT** - Is that free to access?

**Mr RUSSELL** - Yes, that is free. All the programs are services we provide free.

The other very positive aspect is in our heater exchange programs. We will put an energy efficient heater into houses; we will take away the old two bar heater that uses significant consumption and replace it with a modern Dyson controllable heater that is safe, controllable, automated, and directional. It turns off at the thermostat and is a much better product for the customer. That is rewarding them for doing the right thing. It has been very successful and we do that with St Vincent de Paul. They take away the old heater so we don't [TBC 12.12.28] to the customer using the high consumption heater.

**Ms KARDOS** - The impact of the heater replacement program is best articulated in the annual report, on page 21. One of our customers has sent us a poem, articulating how much they value the Dyson - some free advertising for Dyson there - but how much they valued that heater. I have been doing energy retailing for a number entities, the same as Grant, and I have never had a customer write a poem of that nature before.

**Mr GROOM** - It is a new approach.

**Ms KARDOS** - It is. It is fantastic and that is why we included it in the annual report because the customers' stories are more proof in the pudding than us -

**Mrs HISCUTT** - I am sure you would get a few negative ones?

**Ms KARDOS** - On that point, Leonie, I covered that. If you look at our net promoter score, which is how we measure our customer loyalty, and Grant can get into the technicalities of how it is calculated, that net provider is our measure of loyalty. When we first started implementing that program we were thinking that plus 15 would be a stretch because we all know energy retailers have not traditionally been your most loved retailer. We thought, plus 15, we will assume that is positive. We ended the year with plus 29. I was talking with the team yesterday and they were sharing with me that from November we received plus 44 and that is phenomenal. I will ask Grant to explain how the net promoter score operates and you will understand why that is such a phenomenal result.

**Mr RUSSELL** - Net promoter score is those who promote against those who detract. Detracts are one to six. If you score us - these are actual completed transactions from a customer. It is not only, I think you are good, it is based on an experience you have had with us, you have transacted in some way. We contact you and

if you score us one to six that is a detractor, you are not positive about us as a business. Only nine and 10 count a positive outcome. From that perspective, we did 5300 completed surveys last year on customers and ended up with the plus 31 score. We are doing something right in terms of customer service. That is, as Bec said, significantly higher than where we thought we would end up. A typical retailer would be in double figures. Again, customer service is what we are about and it is what the staff understand. We genuinely have that as part of our culture. It is very important to us.

**Mrs KARDOS** - Yes, we do find opportunities where we haven't met the customer's expectations to the fullest extent. We use that as an opportunity to go back in and say, 'Okay, what did we do wrong, how can we improve that? How can we improve our processes, our systems and what more can we do?' We have a very, very strong focus and that is what I was saying right at the beginning. We have a team of fabulous Tasmanians who are so customer-focused and, minister, you saw them at work in the YES tent.

**Mr GROOM** - Yes, I did.

**Mrs KARDOS** - They just have such pride in what they do and work so hard and they get that feedback.

**Mr GROOM** - It is seriously good. I have to say, the quality of it was quite remarkable and I don't say that lightly.

**Mrs KARDOS** - They get that feedback. They get the positive feedback but they also get the opportunity for improvement, and what action can they then take to ensure that next time - the nature of the phone calls that we get into our centre is often when customers are at a point of difficulty. You may be moving house and that is quite stressful, you are experiencing financial difficulty, you may have had a death of a family member and you need to change that, so quite often customers contact us at quite a stressful point. We are really cognisant of that and of the need to make sure that we help them with the process, help them understand what their options are and how best we can support them through those more challenging moments.

**Mr GROOM** - Chair, if I could just have one quick final comment on this. I want to acknowledge Caryle's and the board's efforts. This commitment goes right through the organisation from the Chair and the board down. It is a very stark thing. When you get exposed to it, you live and breathe it, and I really want to acknowledge that.

**CHAIR** - Thank you. We will move on.

**Ms FORREST** - I want to ask about one point regarding customer service. In some of the YES program and that sort of thing, how many difficulty to pay customers do you deal with, how many outstanding accounts do you have generally?

**Mr RUSSELL** - Outstanding accounts in general or late accounts - there will always be a percentage of those. It changes month-on-month in terms of those in arrears. Arrears are fairly tightly managed. I will make no apology for looking after the budget and making sure that we do manage very tightly the arrears. We have the YES program that helps one side. We are very focused on collection. We do focus on ensuring that we bring in the money that we are entitled to. Also, we take disconnection, if that is where the question is going, as a last resort.

**Ms FORREST** - No, it's not going there, but anyway.

**Mr RUSSELL** - We use that only as a last resort where people will not engage in real terms to try to change a situation.

**Ms FORREST** - I am not sure if you are aware, minister, of a new system of payment called Afterpay. A lot of retailers are using it now in clothing and that sort of thing, which allows people to manage their payments

over a period of usually four weeks. They might not be able to pay \$500 in the pay week, but they could pay \$200 a week. Is that one of the sorts of models that is being considered by Aurora?

**Mr RUSSELL** - We certainly have payment plans.

**Mrs KARDOS** - We offer payment plans to all customers. If a customer is finding this quarter they would like to pace it over the next three months -

**Ms FORREST** - This is obviously not an option for all people.

**Mrs KARDOS** - This is an option -

**Mr RUSSELL** - EasyPay, for example, is a good example for customers to serve regular payments be they weekly, fortnightly, monthly, et cetera.

**Mrs KARDOS** - We've been offering that for quite a while.

**Ms FORREST** - The other thing with these is, if you look at some of the retailers that are using it as a platform then you get promoted on the website and things like that, so it actually becomes a marketing tool as well.

**Mr GROOM** - The other one is the prepayment, which is another way that people can manage their budget pressures. Again, there is a very strong commitment from Aurora to that service and they are doing a lot of work in ensuring that that is fit for purpose.

**Ms FORREST** - I find the financial statements by Aurora are presented in a much more user friendly way, with your accounting principles in the relevant note making it much easier. Well done to whoever decided to do it this way and perhaps other GBEs could take a leaf out of their book.

**Mrs KARDOS** - It is the new accounting standard. We have adopted that accounting standard a bit early this year and the reason is to improve the readability for the non-accountants, of whom I am one. I also much prefer the new format. Thank you for that feedback.

**Ms FORREST** - I wondered if it might have been because you have a 61 per cent female workforce and good on you.

**Mr GROOM** - It is a fantastic characteristic.

**Ms FORREST** - And to be surrounded by women at the table, minister, you must be very pleased.

**Mr GROOM** - Yes. In all seriousness, in many respects it is the gold standard. It is probably slightly controversial, it has a lot that is very positive about the culture, the approach and as we have discussed, it's strong commitment to customers, including readability.

**Ms FORREST** - I make that point. Minister, you touched on this as the Chair, and the CEO also did, about new sales revenue and the energy purchases and the YES program assists the downward pressure on energy purchasers which is a positive thing but also has its challenges for the revenues.

When I look at the sales revenue and the energy network purchases, both were down but the gross margin was virtually the same at about 10 per cent. It was explained that this was changes to the billing system, the telephony, new print provider and other cost saving measures. I am interested in how you have managed to do that beyond what you have said, if there are other measures that have been taken, but also provide a break up in

both the sales and purchases between the amounts over which you can control prices and costs. It is a bit of an achievement, without raising energy prices, to see this sort of result.

**Mrs KARDOS** - The revenue has reduced primarily because we lost a large customer through the year. As a result our revenue and our corresponding reduction in our energy network purchases, because we did not need to buy that energy or those network costs associated with that large customer. That is the primary driver between the reduction and why we have seen such a minimal impact on our gross margin.

Where we focused our effort, and hence that underlying cost savings of 7 per cent, is on those operating costs. How can we do what we do, which is 12.2 per cent of the cost take for small customers. How can we ensure that everything we do is as efficient as possible? We recognise that we only have 270 000 customers, we are solely focused on Tasmania. We do not have scale, we cannot acquire a whole host of new customers, so how can we be the most efficient operating cost for that and also ensuring that our percentage of the cost pack is the most efficient. That will ensure that we are competitive with other retailers. That is where our focus is and you would have noticed there has been a negligible change in our operating cost. We did a lot more in 2015-16 than we did the previous year. We are basically funding those improvements. We have been self-funding those improvements over the last 12 months.

**Ms FORREST** - Can you give us the figures, Rebecca, about how much power you have sold in quantity terms?

**Mrs KARDOS** - Sure. I will just double check - 6.4 terawatt hours for 2015-16.

**Ms FORREST** - What are the demand patterns looking like? You have lost a big customer but the demands from others. What are you forecasting in that regard?

**Mrs KARDOS** - For 2015-16 for small customers, it ended the year higher than the previous year. Whereas during the energy supply event - and I mentioned this at the Public Accounts Committee - we saw a 7 per cent reduction during that period for our small customers but over the full 12 months we saw a slight increase. But for our commercial and industrial customers, that is a competitive market. A proportion of that segment - these are large customers that consume more than \$40 000 per annum in energy - that is a competitive market. We have retail competition in there, so our proportion of that market changes year on year. We have been continuing to maintain our position in that market and we haven't seen any marked change in the energy consumption of that segment.

**Ms FORREST** - With the improvements and reduction in costs of battery storage and more people considering in-grid battery storage, and therefore not buying as much from the grid, have you had a look at that and do you have any forecasts of the impact of that on Aurora?

**Mrs KARDOS** - We are not seeing massive reductions in energy consumption for our portion of the market but we are seeing increased penetration of embedded generation - solar PV on rooftops, for example - but it is quite slow and gradual. It will have an impact but it is probably not for 10 years; it is not going to have an immediate impact. That's what I said about providing greater customer choice. The key thing for Aurora Energy so that we continue to be relevant is that we are looking at how we provide greater customer choice, not just in terms of using energy but in those opportunities, solutions and technology developments as they become more affordable.

**Ms FORREST** - I take my own example - we are renovating a house in Wynyard and we will put in-grid solar with batteries, and we plan not to have any Aurora bills anymore. It is a renovation we are doing, the opportunity is there, battery storage has improved enormously, as has the rooftop photovoltaic technology. The electricians are there working on load - we don't intend to sell into the grid very often because it's not worth it, but it certainly is to generate all our own. This is now and I am in a position where I can do that. Other people may not be but it is becoming more affordable and it will continue to become more affordable. You say

10 years, I'd say less. Can Aurora somehow get into this and maximise their opportunities here? How can you manage that?

**Mrs KARDOS** - When we look at a number of customers putting embedded generation on their rooftop, we are not seeing a marked increase year on year. We are seeing the number of installations is quite a constant trend. However, you are right, as solar prices have dropped significantly over the last couple of years, batteries will in time become more affordable as well and people like yourself will become more predominant. For us to remain relevant we have to continue to ask, 'How can we be a part of that? How can we ensure we're meeting all energy consumers' needs, not just those who want to remain on grid? How can we do that with making sure those customers who do decide to remain on grid because maybe they don't have the opportunity to make that choice, that they are not then being adversely affected?' You are right, that's not a problem for 10 years' time, that's a problem we need to be thinking through now and part of our strategy and one of those challenges I refer to in the annual report.

**Ms FORREST** - The board is well aware of all that?

**Mrs KARDOS** - Yes, and how do we manage that transition? How do we support people such as yourself who want to go in-grid - how we support you and maybe get an Aurora Energy bill of a different form in the future and not completely do that, and continue to support those other customers who don't have that choice and may not have that choice. Whether it's because they are renting or their circumstances being such they aren't able to do that.

**Ms FORREST** - They can't afford the capital expenditure at the outset.

**Mrs KARDOS** - Exactly.

**Mr FARRELL** - Getting back to assisting vulnerable people - I have to acknowledge firsthand the assistance with energy use has been good for me - through electorate offices different issues come up. One is people with illness who have to renew their concession on an annual basis. Some of these people are housebound or live in rural areas, and some have conditions that will never leave them. Are there plans to look at the requirements for annual assessment for these people? It is something that comes up from time to time through electorate offices and causes a deal of stress to people who are told, when they are still sick, to get a certificate.

**Mrs KARDOS** - I fully appreciate the concerns. Aurora Energy administers that scheme on behalf of the Tasmanian Government, so we don't define the requirements of the scheme and how it operates. I hear your point and I am confident the Department of Treasury and Finance administers the scheme and is very cognisant of those issues. It's not something we can change. We administer the scheme on behalf of the Government.

**Mr GROOM** - We understand the issue and are always looking at ways we can work with people to ensure best outcomes, particularly for those more vulnerable in our community. We have concessional arrangements and other support mechanisms in place for more vulnerable people, or people impacted by certain health conditions, for example, we can be proud of. We have a very good basic scheme and it would be recognised as being amongst the best in the country. We are always looking for ways we can make people's lives easier and address any practical issues.

**Mrs KARDOS** - On that point, my staff have reminded me that the State Revenue Office and Treasury and Finance have recently amended the scheme to make that requirement every two years, based on the customer feedback.

**Mr FARRELL** - Is there any flexibility to further extend that for somebody's lifetime, or if it was something that was going to be an illness for a defined period?



**Mrs KARDOS** - Yes.

**Mr FARRELL** - Pay-as-you-go -

**Mr GROOM** - If you saw some of the modern application of this, you might be interested. The interface is very impressive.

**Mrs KARDOS** - We are in the market at the moment with the next generation prepayments - the next generation pay-as-you-go solution. We are doing a concept trial with 49 existing pay-as-you-go customers. They are trialling the concept of the new prepayment solution of the future. Basically, the new solution means customers don't have to interface with the meter any more. In the middle of winter the last place you want to be is interfacing with your meter because it is usually outside in an inconvenient location. What they can now do is view their energy usage at points in time, what their current balance is, top up their account -

**CHAIR** - Sorry, we're talking about smart meters now?

**Mrs KARDOS** - The metering interface is a smart meter but the app is on your smart phone. The smart phone app allows you to top up your account, you can see your energy usage, you can predict what your daily consumption is, from the comfort of your couch.

**Mr GROOM** - You do not have an example?

**Mrs KARDOS** - If you want to have a look. Sorry, it is not very big, but you can see you have account summary, my usage, insights and my budget. If we go to my usage, that allows a customer to see their usage. The pay-as-you-go product is a time-of-use product. When you use energy depends on how much you pay. It is taking a very long time to load, Grant. It will show you your usage on a day or for a week or for a month, and in 30-minute intervals.

**Mr CHAIRMAN** - That app can apply to several meters. We probably have about 15 of the things.

**Mrs KARDOS** - This is for pre-paid customers. For an average residential customer they typically -

**Mr CHAIRMAN** - It is only an application for residential -

**Mrs KARDOS** - Yes. This is our next generation pre-payment solution. You can see for this customer what their energy usage has been today. We can also make that for the last month. It will load that and it will show their energy usage. The benefit of that is they can say, 'When can I move my energy into those cheaper price periods?'

The great thing about time-of-use is if you have some ability and flexibility in moving your consumption to those lower-price periods, you can do that. This trial has been in place for about a month. Some of the anecdotal feedback we are getting from the trial participants is, 'I can see now when my husband is using the welder in the shed,' or the kids are wagging school, because they can see that they have been home during the day because they are getting that consumption data.

Probably the best thing from my perspective is the 'my budget'. It talks about this week's budget and last week's budget. It allows people to see how much energy in dollar terms they are using, and how much can they budget. The feature that customers are really loving is being able to pay within the app. What we are finding is their payment frequency, the number of times they are paying, has increased considerably. They are paying more frequently and with smaller amounts because it gives them that convenience and ability.

**Mr GROOM** - What Rebecca is saying is that power bills will come down, but divorce rates might go up.

**Mr CHAIRMAN** - The extension of that technology - will you be able to, at a time, extend that into the commercial and small business sector apart from households?

**Mrs KARDOS** - For a lot of our commercial and industrial customers, we already have this functionality, but yes, for small businesses we will be able to start looking at having targeted solutions. When I was saying in my opening introduction about providing greater customer choice, that is where we are focusing our efforts, on what more can we bring to the market?

It is not just about paying your Aurora Energy bill. It is about you getting a greater understanding of your energy usage, how you can change that energy usage. You can get greater insight and greater control over energy. In the future, and this is definitely something that we have been thinking about - is more and better generation solar customers, getting better visibility for those customers, not just what your net exports to the grid are.

**Mr FARRELL** - Is there infrastructure required on the house to interact with that? How does the rest of the system work?

**Mrs KARDOS** - This is a concept trial at the moment. For those 49 pay-as-you-go customers, we have taken away their old meter and put on a new meter. That app that you are looking at has been developed by Entura. Then through the 3G comms network it talks to that meter to get that usage data. Then we use our standard payment platforms to top up the account.

**Mr FARRELL** - Who will cover the costs of changing the meters over? Is that going to be borne by the consumer?

**Mrs KARDOS** - That is part of the whole concept trial for us to understand - does the customer value this? When we did our research and when we ask pay as you go customers what they liked and didn't like, have we interpreted that advice? Is this app what they are looking for? That is the first test of the trial. The next test of the trial is what aspects do they like? Do they like the app interface? I think it would be fair to say that is a yes. Okay, so we need to make sure that is an essential element of the new design. Then we are doing a lot of learning around the underpinning metering infrastructure to enable that connectivity and data to the app. What does that mean and what does that cost? We are going through that process at the moment.

**Ms FORREST** - What is the demographic of the people using the trial? Are we looking at younger people as well as older people?

**Mrs KARDOS** - We have a very broad spread in the 49. They are all around the state. Originally when we commenced the trial, because obviously there is anecdotal advice that the 3G network is somewhat patchy in Tasmania, we've been really surprised it hasn't been as bad as we originally thought.

**Ms FORREST** - Have you been out the back of Wynyard, for example?

**Mrs KARDOS** - We originally started with 51 trial participants. There are two no longer participating as we could not get any network coverage. As part of the concept trial, for those customers where coverage is going to be a challenge how do we support them while still giving them the same functionality, but recognising that comms is going to be problematic. We are looking at and investigating that further now.

**Mr ARMSTRONG** - How many pay-as-you-go customers do you have?

**Mrs KARDOS** - We have approximately 26 000.

**Mr ARMSTRONG** - You've already touched on where there is no service for pay-as-you-go, that 3G service. You do have other people in the community who do not have what we have here. How would that go if

you bring this scheme in and those people are not -

**Mrs KARDOS** - That is why we are doing our concept trial - because we want to understand the impact of this. One of the trial participants is someone who does not own a smart device today. As part of the trial we have given them a smart device to understand if that is going to be a barrier for this product going forward, this next generation. They are finding it really easy to use, so one of the considerations in the deployment of the next generation is for those customers who don't have a smart device: how can we support them to potentially get one?

**Ms FORREST** - Those who don't have coverage have unique challenges.

**Mrs KARDOS** - Yes, unique challenges and considerations. That is why we're doing a trial. The risk of our going out and swapping 26 000 customers with a whole new product without taking due consideration would have cost a lot of money and would have resulted in a lot of customers being very dissatisfied with the outcome. That is certainly not our intent.

**Mr ARMSTRONG** - Is the 26 000 a stable figure of pay-as-you-go, or does it go up or down?

**Mrs KARDOS** - It has been declining year on year. Every year we are required, under the regulations, to advise existing pay-as-you-go customers that if this product no longer suits their needs they have the ability, for free, to change to the standard tariff offerings - tariff 31, 41 or the new time-of-use tariff. We've been doing that every year. As a result, people might move into a property that has pay-as-you-go. They no longer want it and they prefer the standard post-pay product. In that period they can for free get the meter changed out and move to standard post-pay arrangements.

**Mr ARMSTRONG** - Do you know who your main pay-as-you-go customers are? Is it rental properties or general? Do you have any idea?

**Mrs KARDOS** - It is really broad. We don't have a lot of data about pay-as-you-go customers, but we know they are spread all over the state. It is a broad customer base in terms of their demographic, their socio-economic status. They are simply a smaller proportion of the residential customer base.

**Mr FARRELL** - Will new customers be able to sign up to pay-as-you-go? Will that be a choice?

**Mrs KARDOS** - If the launch of the product is as successful as the concept trial is showing at the moment, yes, we will then be opening that up to other customers as well, if they so desire.

**Mr FARRELL** - If it is successful, with your media and communications people - I do not know what your current numbers are, how many people you employ in that area - is it envisaged you will have to increase it to put the message out. It is going to be a big change in the way people pay their bill.

**Mrs KARDOS** - At the moment we are in the very early stages in doing the concept trial. You are right, one of the key learnings - we are also testing a different way of providing our customer service during the trial because - the questions and customer needs are going to be different. People forget their passwords, so we have to provide a password service, as a simple example. We are looking at some of those flow-on impacts. You are right, when we bring a new product to market we have to launch that and there will be a promotions and campaign aspect of that. They will be considered when we do the full business case for the launch.

**Mr FARRELL** - You have a communications and media unit at the moment?

**Mrs KARDOS** - Yes, we do. It is very small. That is a consideration in planning but we are not a launch phase yet. We are still in learning phase.

**Mr ARMSTRONG** - How long do you think it will be, the learning phase?

**Mrs KARDOS** - The trial is scheduled to complete in February 2017, whereupon we will then go into final solution design. We are targeting a commencement of launch in December 2017. This time next year when I appear before scrutiny I am hoping that I can tell you about a successful product launch, but there are a few steps we have to go through between now and then.

**Mr GROOM** - To go back to Mr Farrell's point, consistent with the focus of the company on operational efficiency - Aurora is a very tightly run ship. We currently have in the order of 180 employees. The old Aurora, when they had the distribution side of it, was in excess of 1000. It is a lean ship, very much focused on efficient operations. No doubt as part of this there will need to be a focus on how it is delivered and communication. Ms Forrest made the point before about the annual report, it is again a characteristic of Aurora. It is very much focused on its messages and communication. I think that is important.

**Mr FARRELL** - Does that include social media? Do you have Twitter and those sorts of things?

**Mrs KARDOS** - No, Twitter, from our perspective, is something to use when you want to push messaging to customers on a regular basis. TasNetworks tend to own that space, because of outages and those sorts of things people want to know, and the immediacy of that. We do use text messaging a lot to advise customers, for example, pay-as-you-go customers, how we advise them of that free meter change to move off pay-as-you-go. We did that this year and last year through text messaging.

**Ms FORREST** - If your bill is overdue you get a text message.

**Mr FARRELL** - You know that?

**Mrs KARDOS** - We use a range of channels to communicate with our customers. Text messaging is one of those as well.

**Mr FARRELL** - With the decline in the postal system now I think people are looking for different ways.

**Mrs KARDOS** - We launched BPay view this month. When you get your next Aurora Energy bill, depending on which bank, you will have the ability to get your bill electronically through your bank provider of choice.

**Ms FORREST** - Then it won't get lost and it will be paid on time.

**Mrs HISCUTT** - Has Aurora a ballpark figure of how much this new system is going to cost for you?

**Mrs KARDOS** - That is the whole point of the concept trial, then we will go into solution design, and then we will do the detailed analysis of the cost.

**Mrs HISCUTT** - You will decide whether to pursue it? It sounds like it is almost a done deal.

**Mr GROOM** - We will fund the future delivery of the product, no question about that.

**Mrs KARDOS** - We are committed to pre-payment and it has a lot of benefits to Aurora Energy because the customers pay in advance and as a retailer that is something you value and want to encourage. We are committed to the pre-payment product. We haven't done the detailed financial costings yet but once we do that, then it is looking at how we recover that expense over what time. There is a whole host of considerations. It is just a little too early to get into the detail.

**Ms FORREST** - On page 62 of your annual report regarding the renewable energy credits, I note they have gone up in value. Is that because you are holding more or has the value increased? Can you tell us how many were on hand as at 30 June?

**Mrs KARDOS** - I will ask our general manager commercial services, Kane Ingham, to answer that question. He manages our balance sheet.

**Mr INGHAM** - The increase has been twofold. The price of RECs has gone up substantially over the last 12 months and the inventory we had at 30 June 2015 reflected that lower price. Also, the scheme requires retailers to purchase more as we get closer to the target, which was originally set for 2020. The amount of RECs retailers are required to hold has gradually increased. That reflects that we have had to buy more.

**Ms FORREST** - You bought more at a higher price recently?

**Mr INGHAM** - At a higher price, we have had to purchase more. It is the trend right across the national market that RECs are more expensive and that is being reflected in market prices.

**Mrs KARDOS** - The national target is 33 000 gigawatt hours by 2020. Our liability increases year on year. This year our large scale generation certificate liability was around 440 000 certificates, which equates to 440 000 megawatt hours. That is a market where we buy LGCs, large scale generation certificates, and we have seen prices move from 26 000[gigawatt hours?] prior to the announcement of a 33 000 gigawatt hour target to, I think it is traded around \$86 at the moment. We are seeing a significant shift. You would have noticed on your Aurora Energy bill, Ruth, in the little pie chart which says what makes up your energy price, there has been a 1 per cent increase for renewable energy certificates between this year and last year.

**Mr INGHAM** - That price has fluctuated over the last few years as federal policy has been finalised.

**Ms FORREST** - Energy prices affect that too, don't they?

**Mr INGHAM** - Those REC prices flow into the energy price.

**Ms FORREST** - With the renewable energy that Hydro generates and is able to now as it has rained and the dams have been replenished, will we see the price of RECs drop a bit?

**Mr INGHAM** - We are part of a federal -

**Mr GROOM** - It is more national factors. Kane, you can correct me if I am wrong, but I don't think there is any suggestion there is likely to be a short-term reduction in the price. We are talking about national figures in this context. There is no doubt at all that this has been part of the upward pressure in pricing. The board has done a lot of work in terms of their future procurement strategy. We are focused on, as a Government, encouraging further renewable development in the state. We have made it clear to Aurora we are keen for them to have active discussions with Tasmanian renewable development proponents and they have been doing that.

**Ms FORREST** - To purchase the RECs?

**Mr GROOM** - Potentially, because we want to see projects get up in Tasmania. That is the flipside to it, the potential for investment and jobs through further renewable development.

**Mrs KARDOS** - To achieve that target by 2020, that 33 000 gigawatt hour target needs significant renewable energy investment over the next three years. The likelihood of that price coming down is very low because of the amount of investment required to meet the target. All retailers who predominantly have the liability pay a market price and Aurora Energy is not dissimilar to any other retailer. We are looking at how we can do that and how we can do that most economically.

**Mr INGHAM** - The scheme doesn't look at Tasmania and say in that state it is a majority of renewables so Tasmanian people don't pay for RECs. It is a national scheme.

**Ms FORREST** - The price is the price.

**Mr INGHAM** - Yes, unfortunately.

**Ms FORREST** - How many were on hand at 30 June?

**Mr INGHAM** - That is a good question. I might come back to you if I could on that.

**Ms FORREST** - Okay, and how many were surrendered to the regulator during the year?

**Mr INGHAM** - For 2016, it was 443 000.

**Ms FORREST** - You have market trader receivables of \$16 752 million, and there is a footnote saying the market traded receivables relate to contracts, the difference for energy purchases, and are neither passed you nor impaired[TBC 12.57.10 p.m.]. Can you give me a bit more detail around this figure because it is a large amount when there was nothing last year?

**Mr INGHAM** - Yes. We enter into financial derivatives to mitigate the risk of spikes in the spot price in the market. At 30 June you might recall there were higher spot prices during that period, which was reflecting the lower dam levels. Trade receivables are the difference between the spot price and what we had entered the derivatives into. They were amounts owing to us from Hydro Tasmania for the contracts we had in place.

On the other side of that, which will be in the liabilities section, is the amount we were paying AEMO for the pool payment. It was not as if this is a free kick, there is another side to it that we were paying AEMO for. It is payment received from Hydro Tasmania offset by amounts we were paying to AEMO for wholesale energy. Does that make sense, Ruth?

**Ms FORREST** - Yes, it does. It is not a significant benefit or disbenefit to you?

**Mr INGHAM** - No, because we take a lot of time and effort to prudently hedge our book to make sure we are not exposed to these spot prices and that was the result.

**Ms FORREST** - To go a bit further with your energy price derivatives, do these relate to arrangements with Hydro Tasmania and/or with other parties?

**Mr INGHAM** - Is that still on page 60?

**Ms FORREST** - Yes. There are also your financial instruments further on in the annual report.

**Mr INGHAM** - That is right, they are with Hydro Tasmania. Those movements in the balance sheet reflect that accounting standards require us to value them at balance day and during the course of the year, or a number of years, some of those derivatives, the valuation of those contracts are higher than we entered into. There is that movement that normally goes through the balance sheet and that is what you are seeing.

**Ms FORREST** - The opposite effect is in Hydro Tasmania's financials.

**Mr INGHAM** - Yes.

**Ms FORREST** - If the forward price rises by \$5 per megawatt hour, for example, then the effect on the balance sheet is about \$10 million. Is that an issue currently, do you think?

**Mr INGHAM** - No, it is not. This price volatility is the reason why we enter into these derivatives to make sure we hedge against those sorts of price shocks of price volatility. Any movement in the forward price we make sure -

**Ms FORREST** - You are hedged appropriately.

**Mr INGHAM** - Yes, that is right we are hedged appropriately and costs are minimised for us and also for our customers.

**Mr GROOM** - And you are smoothing the cost.

**Ms FORREST** - With the contractual arrangements with Hydro Tasmania, in simple terms, who benefits then if the National Electricity Market prices rise, you or Hydro Tasmania?

**Mr INGHAM** - Over what time, say next year?

**Ms FORREST** - Yes.

**Mr INGHAM** - It is an interesting question. If we are hedged now then we essentially benefit and our customers benefit because prices are locked into the current prices.

**Ms FORREST** - Do you hedge every year, is that an annual thing?

**Mrs KARDOS** - Daily. We are constantly looking at what our prospect customer list energy needs are, what our current exposure level is to the market, whether or not in the border-proof limits, what is the underlying market doing, should we buy now, buy later and it is what we do. We do it every single day and we are constantly looking at how we can ensure we minimise our wholesale exposure, but also ensure we can price competitively for our customers. It is hour-by-hour.

**Ms FORREST** - By the same coin, when prices fall then effectively Aurora takes the hit rather than Hydro. Swings and roundabouts. Can you just give us an explanation, if there is, of the impact the Basslink outage had in 2016 on your cash flow, profit and your balance sheet?

**Mr INGHAM** - Performance wise you can see it has not had any impact on our performance. We have been able to achieve strong earnings throughout the year. Where it did have an impact was on cash flows. That was really a short-term impact as we had to make higher cash payments for wholesale energy at certain times and we managed that. That was easily adjusted for and as you can see the balance sheet still remain really strong at 30 June, which was just after the energy supply event. Financially we have come out of it with minimal impact.

**Mrs KARDOS** - We did have to increase our facility limit to meet our Australian Energy Market Operator maximum credit limit, because of the price increase. We did increase our facility limits. For the cost of those facility limits we only pay for what we use and the incremental cost was no more than \$100 000 from memory.

**Ms FORREST** - You did not use much of that increase in the facility limit anyway?

**Mrs KARDOS** - No, but to meet our credential requirements with AEMO and our act itself, our financial service licence we need to ensure we have a surplus of liquid funds and meet all of those obligations.

**Ms FORREST** - AEMO do not like it if you do not pay your bills, do they?

**Mrs KARDOS** - They like to ensure that we will pay our bills, so that -

**Ms FORREST** - They have ways of making you pay.

**CHAIR** - If you recall when some of the bonuses were paid to Hydro executives not somebody who is under your purview, some of those became rather unpopular. In the Aurora entry on page 74, Other Monetary Benefits, does that mean that they are bonuses?

**Mr GROOM** - Can I be very clear on the Hydro one there were no bonuses paid this year. I can report on that.

**CHAIR** - No, I am talking about the year before.

**Mr GROOM** - It was more of a legacy, to be honest, but there were none paid this year.

**Mrs KARDOS** - We have no incentive schemes, so there are no bonuses to be payable.

**CHAIR** - It is just a matter that becomes very unpopular with people out there.

**Mr GROOM** - Chair, I understand.

**Mr GAFFNEY** - I acknowledge the corporate responsibility Aurora has, especially with partnerships and donations. I am interested to know what happened around Aurora giving up its naming rights at the stadium and coming out to the University of Tasmania. That relationship was 12 years of age. It was a good place for you to be in. What happened there when the University of Tasmania stepped in? Were you involved in those conversations?

**Mr GROOM** - It was certainly a matter given very careful judgment by Aurora. Aurora has very strong commitment to broad community sponsorship arrangements. Some are absolutely outstanding. I know they had a legacy arrangement. I think it has provided an opportunity to the university.

**Mrs KARDOS** - The naming rights arrangement with Launceston City Council for the stadium was for three years. It was coming to an end. In that three-year period we had moved from this integrated distribution and retail business to a stand-alone energy retailer business focused purely on Tasmania. We already have strong brand awareness. We only operate in Tasmania. One of the advantages of naming right sponsorship of a stadium is obviously that gets seen on a national scale. We do not operate in a national market. We participate in one, but we do not sell in that market. When we were looking at if we wanted to renew or continue this arrangement, because of our becoming a stand-alone energy retailer it was time to hand on the baton. We were not involved with the University of Tasmania, but Launceston City Council obviously engaged with them and we have ensured a smooth transition.

**Mr GAFFNEY** - You made the decision first to move away from it?

**Mrs KARDOS** - Yes.

**Mr GAFFNEY** - Rather than the council offering to -

**Mrs KARDOS** - We still have a strong community sponsorship program. We have continued to do that. We think there are better ways we can make a practical difference in the community. We already have strong brand awareness, but naming rights sponsorship is about brand recognition. Everyone in Tasmania knows who Aurora Energy is and what we do. What we would rather do now in terms of our investment, because it is an investment, is make sure we are making tangible, practical differences. One of the things with our stadium sponsorship is access to the venue. We have been taking groups that would not ordinarily get access to go to the football. We have been taking them to the football - on Aurora Energy. We are going to continue to do that, but we do not need to have naming rights to do it.



**Mr GROOM** - Chair, I appreciate the opportunity to come before the community. I thank Caryle, Rebecca, Kane, Grant and all the crew at Aurora for their ongoing efforts, and my staff and everyone involved in the preparation.

**CHAIR** - Thank you for your participation.

**The committee suspended at 1.08 p.m.**