1994

PARLIAMENT OF TASMANIA

PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

REPORT ON ENQUIRY INTO THE HYDRO-ELECTRIC COMMISSION

Laid upon the Table of both Houses of Parliament

The Committee was appointed under the provision of section 2 of the *Public Accounts Committee Act 1970 (No. 54)*

MEMBERS OF THE COMMITTEE

Legislative Council	House of Assembly
Hon. *G. A. Shaw* (Chairman)	*R. G. Mainwaring* Esq.
Hon. *R. W. Ginn*	*P. A. Lennon* Esq.
Hon. *P. R. Schulze*	Mrs *S. D. Napier*

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Foreword

This report is the product of carefully considered comprehensive sworn evidence presented in response to the Terms of Reference in both documentary and verbal form. Many long question and answer sessions were held.

The Public Accounts Committeee Act of 1970, Section 7 (3) states:-

"Except where it considers that there is good and sufficient reason to take evidence in public, all evidence shall be taken by the Committee in private".

A feature of this enquiry is that not only was the evidence "taken in private" but much of it was given specifically under the confidential provisions of Section 7.

If it appears to the reader that the conclusions and recommendations are not supported by quotations from the evidence the reasons lie largely within the restriction mentioned above.

The report represents the unanimous view of the Committee .

The Committee requests the Report be read and judged in its entirety rather than extracting single statements which may represent but part of an important whole.

Parliament House HOBART
27 April 1994

Honourable G. A. Shaw, MLC
(Chairman)

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Background

Hydro-electricity is the most environmentally benign source of commercial energy and should be used wherever possible within Tasmania.

Hydro-electric power was first experienced in Tasmania on the night of 10 December 1895, the power being provided from the newly commissioned Duck Reach Hydro Electric power station on the South Esk River. Expansion of hydro-electric power in Tasmania continued, and on 18 January 1930 the Hydro-Electric Commission was created to "Manage the existing works and to control the waters of the State, and in the Commission was vested the sole right of generating, distributing and selling electricity throughout Tasmania."

The role today is the generation, transmission, distribution and sale of electricity. Although the role has remained basically the same there have been a number of outside influences that have affected the financial standing and profitability of the HEC. These influences have been largely imposed from external sources and have been primarily outside the HEC's control.

For almost 100 years the HEC was a non-profit organisation that was required essentially only to break even in its financial operations. Accordingly, electricity price structures were set so that they were complementary to the overall development of the State.

Except for the depression periods and war years, Australia generally experienced a boom period in which industrial and retail development flourished and where the availability of adequate, reliable and economic hydro-electric power was rightfully seen as being the cornerstone of economic growth. However, in the 1970's and 1980's a number of factors, most of which were outside the HEC's control, changed dramatically the HEC's financial position.

During the past 15 years many factors have contributed, in varying degrees, to the financial difficulties now being experienced by the HEC. These include:

- a dramatic change in environmental attitude;
- the 1983 Federal legislation and subsequent High Court ruling;
- a decline in the metal prices received by industry;
- the cost of the Pieman, King, and Anthony-Henty schemes;
- consistent over-forecasting of power demand growth; and
- legislative changes.

These matters have contributed to the current debt level of the HEC which in turn impacts on the price consumers pay and the revenue government receives.

The State Authorities Financial Management Act (SAFMA) was introduced in October 1990, and requires tax equivalents and a dividend to be paid to State Treasury. This has placed further strain on the HEC and has introduced a new financial responsibility that has to be met from its operations. Consequently the HEC began the implementation of commercialisation as a necessary first step towards increased profitability and efficiency. The natural corollary of this planning was to also investigate the potential benefits of corporatisation and privatisation.

The Commission has also re-valued its fixed assets in accordance with Australian Accounting standards and made associated provisions for depreciation and maintenance.

Simultaneous with these developments HEC negotiations with Comalco regarding the renewal of their unit price power contract became stalled and discussions commenced concerning the possibility of asset sales.

These matters, because of their nature, became a matter of considerable public and political discussion and on 21 April 1993 the Parliamentary Standing Committee of Public Accounts received a formal request from the Legislative Council to conduct an enquiry and report upon :

a) The consequences for the Consolidated Fund from part or complete privatisation of the hydro-electric system in Tasmania; ; and

b) The consequences for consumers, both private and business, from part or complete privatisation of the hydro-electric system in Tasmania.

After much consideration and advice the Committee decided to amend the Reference received from the Legislative Council.

Accordingly, on 13 October 1993 the Committee adopted the following Terms of Reference.

Terms of Reference

To enquire into and report upon:-

1. the expenditure of HEC funds on valuing assets, preparing strategic plans, and developing policies on tariff charges to the various categories of consumer in connection with its consideration of whole or part-privatisation of the HEC;

2. HEC revenue, including its sources and its relationship to payments into the Consolidated Fund;

3. other matters arising in connection with such expenditure and revenue including the assessment by the HEC of their likely impact upon:-

   (a) its contributions to the Consolidated Fund under the provisions of the HEC (Contributions) Act 1980; and

   (b) consumers.

Acknowledgements

In the course of this inquiry the Parliamentary Public Accounts Committee (PPAC) has heard evidence from a significant cross section of the major power users in Tasmania.

The information sought was considered necessary to enable the tabling of a report in accordance with the Terms of Reference and included questions to the consumer as to their satisfaction, or otherwise, in regard to the pricing structure of electricity supplied and all of the services associated with this supply.

Similarly the Committee received both documentary and verbal evidence from representatives of the HEC concerning the methodology used to achieve its Mission Statement -

> ***"We are in the electricity business. We are here to give our customers high quality, competitive services, sensitive to our environment and profitable for Tasmania."***

Evidence has also been heard from members of the public who had expressed interest in the inquiry; from other government organisations, and also from other members of the public from whom the Committee specifically required attendance.

A list of people who gave evidence is given in Appendix (1)

The co-operation of the HEC and those executive officers who assisted the Enquiry is appreciated.

The Committee gratefully acknowledges the considerable time given by all who forwarded information, prepared evidence and attended Committee hearings.

Government co-operation in providing special assistance through Tasmania Development & Resources consultant Mr Ray Friend is gratefully acknowledged.

The consequences for consumers, both private and business, from part or complete privatisation of the Hydro-Electric system.

The consideration of privatisation requires an understanding of Commercialisation, Corporatisation, and Private ownership which are defined as follows:

Commercialisation -	Actions taken by the HEC to move towards a more efficient business environment which provides for a dividend to be paid to its owners.
Corporatisation -	Would require legislative change and result in the HEC moving from a statutory authority to that of a corporate entity. The HEC would then be governed by the same laws and obligations as private enterprise companies operating under the Companies Act.. This would require the HEC to operate as a profit oriented company and still remain in Government ownership.
Privatisation -	The introduction of non government equity into the ownership of the total enterprise and/or the sale of part or all of the HEC to private interests.

The Committee acknowledges the actions taken by the HEC to identify and move towards the implementation of the extraordinary degree of required change to their financial and management structures, particularly during the last three years. The projected end results of these changes, which have not yet been fully achieved, are linked to a world wide move by government owned and operated power authorities to become more accountable, profitable and independent.

Evidence was received that the HEC has substantial scope for further productivity improvement before it can approach 'world best practice'.

An improved commercial performance by the HEC is necessary to comply with government policy which seeks to achieve social goals from additional revenue gained from increased dividends, tax equivalents and other fees.

Evidence was received from the HEC which argued for a clear separation of the management and ownership functions, the lack of which constrains their ability to achieve optimal efficiency. The HEC has received considerable advice , and is of the view that movement to a corporate model (with 100% Government ownership) would assist them to achieve:

> *competitive equality, through the uniform application of Corporations Law to the HEC and privately owned ESI participants;*
>
> *clarity of objectives through the clear separation of commercial and non-commercial aspects of the HEC enterprise;*
>
> *management autonomy and authority, again through the clear separation of ownership and management of the HEC enterprise;*
>
> *strict accountability for performance, with the replacement of restrictive controls over decision making with rigorous, ongoing and forward-looking regulatory and performance monitoring procedures;*
>
> *enhanced performance, with the potential for higher productivity and income which would, in turn, increase the Government's ability to pursue social objectives from dividend returns.*

Although these aims may be desirable the Committee is of the view that, in the case of Tasmania, the cost, time and effort needed to establish a prima facie case for either privatisation or corporatisation are substantial and therefore, only justified if there is potential for significant gain from the change. The Committee is informed concerning the consultancy let by the HEC and performed by Cresap Langton 9th August 1993 regarding Corporatisation and Private Equity Options and is of the view that these findings should be comprehensively calculated and delineated before any decision can be made.

The HEC as a proven well structured and reliable business, should not be put at risk by pursuing a theoretical model of economic rationalism that has not yet clearly achieved lower prices and improved reliability elsewhere in the world.

There is insufficient evidence to convince the Committee that corporatisation or privatisation will result in benefits to any class of consumer.

If the Government decides that neither privatisation nor corporatisation is an acceptable option and that the HEC is to be retained as a commercialised authority an analysis should be performed on some areas within the HEC. In particular the following areas should be further assessed:

- debt management strategies
- the size of the Administration
- community service obligations

Furthermore, an examination is needed to review the relationship of the HEC with Government and relevant government agencies and the impact these relationships have on consumers.

In the event that such an analysis discloses matters in need of attention they should be carefully assessed and a determination made as to whether they can be adequately addressed within the framework of a commercialised authority.

Review of work undertaken by the HEC with respect to its studies into corporatisation, part private equity participation and other relevant general consultant reports

The committee is of the view that:

Partial privatisation realistically cannot be achieved on the basis of a fair return to Tasmania at this time. Major factors which currently influence the likelihood of a commercial investor wishing to take up equity in a business, such as profitability, debt level and market prospectivity are not conducive to investment.

However, the HEC is to be commended in its actions for the development of organisational and funding strategies and that generally the cost of external consultancies pertaining to these matters has been reasonable.

Notwithstanding the above, the Committee expresses its concern about two such studies undertaken, as follows;

- The Committee heard expert evidence from the HEC, Treasury and the TDR as to the doubtful value of the Centre for Regional Economic Analysis (CREA) Report commissioned by the HEC during 1992 and published on 18th December 1992. This study, entitled - TheTasmanian Economy in 2009-10 under Two Electricity Consumption Scenarios - *is a simulated Comalco goes Comalco stays situation* - with all assumptions and data input supplied by the HEC. It must be noted that CREA chose to qualify their findings because of this one source of selected data. From evidence heard the Committee has decided that the accuracy of the assumptions provided by the HEC to CREA cannot be substantiated. Furthermore, the Committee is concerned about the way in which the report was used to publicly misrepresent the case for the retention of an energy intensive major industry.

- The Committee also expresses concern as to the paucity of information available and the lack of a published accountable report associated with the Natural Gas Feasibility Study involving an outlay of some $350,000 of HEC funds in partnership with Comalco.

The Committee has considered at length the evidence heard from the HEC, consultants and industry representatives regarding the pertinent factors relating to consultancies. It is acknowledged that a definitive finding as to the appropriateness of the extent of consultancies let by the HEC cannot be made by the Committee; however, the Committee expresses its concern as to the apparent ease by which consultancies are let.

It is recommended that all proposals to engage consultants be submitted to the HEC board for review prior to any decision to proceed to invite tenders. Final approval is to be given in all cases by the Board and only then after they have reviewed the cost and the appropriateness of the proposed consultancy.

Insufficient data was available to the committee to enable the detailed assessment of the impact of competition in the electricity supply industry (ESI) on electricity tariffs, government revenue and the State economy.

However, the Committee notes that the Government as owner of the HEC and policy setter for the ESI can affect the impact of competition, assuming it retains these powers past the development of a national competition policy. It has two practical alternative responses to competition in the ESI. It can pro-actively anticipate it and develop and implement a policy to manage competition, or it can ignore it.

In the event of the latter, the HEC is not expected to suffer any immediate severe loss of market share in a competitive market, assuming a governance environment which permits it to use its comparative cost and other advantages over new entrants effectively.

However, the Committee is of the view that it is inevitable that the HEC will be more exposed to competition and believes that a failure to recognise this fact will adversely affect the HEC, the Tasmanian ESI and Tasmania generally.

The Committee is also of the view that the absence of a clear response and policy guidelines to competition by the Government will;

- prejudice the HEC's plans to improve productivity and efficiency.

- damage the HEC's position in a competitive market, because they will not have had sufficient time to prepare for competition, and, because at present the HEC is not adequately financed to support any competitive battles. As a consequence the HEC may lose revenue while its costs (largely fixed) continue. If this occurs either the Government will have to refinance the HEC, or assets will have to be sold at distress prices to competitors. Therefore, any competition not anticipated by government which leads to diminished revenue, is likely to eventually result in recourse to the HEC's principal source of finance - Government backed borrowings. This would present an image of the Government funding one of the ESI participants (HEC) to compete, further affecting the level of sustainable competition and would be inconsistent with the Hilmer report and recommendations from the Council of Australian Governments (COAG).

Competition is the main spur to increased industry productivity and efficiency as well as improved customer service.

Whilst it is acknowledged that by ignoring the onset of competition now may well postpone its introduction into Tasmania, in the long run the State will be disadvantaged. The Committee takes this view because MI customers and other industrial consumers who are mobile may well choose to locate elsewhere because of more competitively priced energy, to the detriment of the Tasmanian economy. The Government, as owner and regulator, will be obliged to accept responsibility.

POLICY TO ANTICIPATE COMPETITION

The Committee recommends the Government develop a policy which anticipates competition. The policy should initially be neutral but be capable of further development as competition emerges.

The policy should;

- initially be neutral on the issue of competition so that it neither artificially encourages, nor discourages competition from new entrants to the Tasmanian ESI
- provide a framework for the subsequent consideration of longer-term options that become available as competition develops.
- ensure that any Tasmanian competitive energy advantage is not eroded by an excessively large administrative structure.

The consequences for the consolidated fund from part or complete privatisation of the Hydro-Electric system

Evidence was given that if part or complete privatisation could be achieved the funds received would be paid into the Consolidated Fund.

Also under present government policy the receipts would be used to retire debt which, according to Treasury, would result in the following benefits:

- an immediate reduction in interest payments
- an improved credit rating
- an overall lowering of interest rates for the remaining state debt.
- a marginal increase in revenue from the HEC in the form of an increased dividend arising from the benefit to the HEC of the credit rating upgrade.

State Government policy would determine the use of the benefits gained.

However, the Committee notes that the change of status from a statutory authority to either a partial or completely privatised organisation would result in exposure to full Commonwealth Income Tax. This would impact negatively on the Consolidated Fund.

The degree of compensation, if any, to be paid by the Commonwealth to the State as a rebate to cover such circumstances is currently under discussion between State and Commonwealth Treasuries.

As the outcome of these discussions is crucial to any decision, no final assessment of the consequences to the Consolidated Fund of a part or complete privatisation can be made until the result of these discussions is known.

The Committee is of the view that there would be no real financial advantage to Tasmania in privatising part or all of the HEC unless full compensation is received.

Sale of generation assets

In a review of work undertaken by the HEC and the Government Task Force with respect to the sale of generation assets the Committee is of the opinion that;

- **the value of HEC generation assets to the Tasmanian Government, the HEC and any potential purchaser is best assessed on the basis of the long term saleable value of the energy generated;**

- the long term impact of a sale of generation assets on the finances of the HEC would be positive provided that the price received for the assets is sufficient. This conclusion has been reached after consideration of evidence relating to the long term technical, and financial implications involved;

- the potential for the reduction of State debt is positive enabling the HEC to reduce its substantial debt as well as its long term operating maintenance and refurbishment costs;

- State Government revenue will be adversely affected through reduced taxation payments if assets are sold; and

- evidence including that of qualified economists was heard emphasising the capital intensive nature of the HEC's assets. The Committee has concluded from this evidence that the interest costs on borrowings and the dividends required by owners differ significantly between the Government and industry. These differences create major difficulties between both parties in determining a fair price for assets.

Sovereign risk

The Committee has heard extensive evidence from the major industrial users on this matter, many of whom expressed the view that it is a significant deterrent to satisfactory negotiations of new contract agreements. Industry regards the imposition of the power levy as a contract abrogation, and an example of sovereign risk.

However, it must be recognized that sovereign risk lies not within the contract itself, but in charges and taxes that may be levied by governments in addition to those within the contract.

The damage sovereign risk can do is directly related to expectations. If policy changes could be reasonably expected there would be no sovereign risk.

Whilst the legal strength of a contract settled between a government agency and industry is safe within law, it must be recognized that sovereign risk can be created by any government by the application of other taxes and charges. Other sources of sovereign risk are taxes on input, output and process charges: these include rail and road charges, environmental taxes, water coal or gas charges, as well as energy charges.

It is the fear of continual changes in taxation policy that can be a potent disincentive to investment. There is a strong perception by industry that governments in Tasmania are not sufficiently aware of the concerns of industry in this matter.

Community service obligations

In the view of the Committee, Community Service Obligations (CSOs) are expenditures incurred by the Commission which are not within the explicit requirements of the Act, or could not be seen as a natural and necessary ingredient in the HEC strategy toward industry best practice.

The Committee is of the opinion that:

- Under the new regime of commercialisation it is inappropriate that the HEC should continue to be responsible for CSOs.

- The financial responsibility for these CSOs should be transferred to government.

- Any community service obligations which could be categorised as part of HEC imbedded debt, such as roads, constructed beyond the standard necessary to support HEC operations but to an appropriate standard for tourism and other purposes, should be transferred to government or at least recognised, itemised and transparently shown.

  Implementation of the above would result in the two fold effect of improving the financial status of the HEC and diluting industry perception that the HEC has unnecessary costs which are reflected in demands made on them during power price negotiations.

- An assessment needs to be made to determine the exact nature of a CSO and the full extent of the CSOs provided by the HEC. For example does the provision of subsidised power to the Bass Strait Islands or the discounts offered to pensioners fall within the definition of a CSO ?

The Committee recommends that following a detailed review and assessment of the nature and extent of CSOs currently provided by the HEC, the financial responsibility for the provision of CSOs be transferred to Government.

Power prices paid by consumers

The Committee is of the view that the availability of electricity at internationally competitive prices provides an important incentive for the relocation of existing and new industry within Tasmania.

Evidence has been received that for energy intensive industries the price of power is the critical factor in assessing viability within Tasmania.

Whilst there is some potential for small industrial and commercial customers to increase their consumption of electricity, they are less sensitive to price overall, and do not represent significant potential for growth in electricity demand.

Furthermore, evidence was received by the Committee which showed that these classes of consumer have limited capacity to pay more for their power when compared to the prices charged by electricity utilities in other Australian States.

Domestic consumers have been targetted by the HEC as a source of growth in demand. The committee believes that any projected growth in this class of consumer must be set against energy efficiency and conservation strategies that might be developed.

Evidenced was received which showed that some capacity exists to increase power charges to domestic consumers when compared to the prices paid in other Australian States.

PERCEPTIONS ABOUT PRICES PAID BY MAJOR INDUSTRY

The Committee has serious concerns as to the implications of the widely held community perception that the major industrial users are supported by the remaining consumers. This perception is based on the premise that because the major industries use approximately two thirds of the power sold but only provide approximately one third of the HEC's revenue, these Major Industries are supported by others.

The Committee received no evidence to show that major industrial consumers are subsidised.

Strong evidence has been received from energy consultants, industry representatives and members of the public that this perception is widespread.

Whilst evidence has been heard to both support and rebut this premise it is apparent that the public has not been properly informed on this matter. As the weight of public opinion has the capacity to influence government decisions some of which could be of critical importance to the future well-being of all Tasmanians the facts should be publicised.

Accordingly, it is essential that the Government take action to inform and educate the community on all aspects relating to the tariff structures that apply to major industries.

TARIFF METHODOLOGY

The Committee notes and is concerned about the change in methodology now used by the HEC in calculating tariffs. The pricing structure is based on an economic approach requiring tariffs to be set on the basis of future costs associated with incremental increases in productive capacity (long run marginal cost). The apportionment of generation costs to energy consumption and generally ignoring load factor is a departure from the method that has prevailed since the inception of the Commission. This new philosophy should have been tested further and the ramifications of such change clearly established before such a policy was adopted.

The concept of peak load power continues to be relevant. It has always been the practice to encourage off peak power consumption to ensure that peak loading on the power system does not grow in any significant way. This has been done with all classes of consumer.

The present capacity of the power system to meet its peak load is only marginally higher than that load. Any significant growth in peak load will require the installation of further generating capacity. Where major industries do not contribute to increases in peak load, it is unreasonable to attribute a significant proportion of the cost for that additional capacity to them.

The Committee is convinced that this change in methodology is inappropriate in view of the manner in which industry has necessarily structured its operations to the previous policy. Previous policy required stringent control for uniform power usage if heavy cost penalties were to be avoided. Additionally, industry has made significant capital investment in internal load control facility in an effort to comply with HEC contractual conditions. Furthermore, on those rare occasions when the HEC has been short of water in its storages Major Industry has had to take the brunt of power rationing and in some instances have themselves been forced to install additional generating capacity.

The Final Report (1992) associated with the Tasmanian Government Tariff Review Enquiry of the Hydro Electric Commission 1992 included the following comments;

Paragraph 524

> Conflicting policy objectives are typically very difficult to reconcile, and compromises or trade-offs are often necessary through:
>
> 1. direct negotiations between the Government and the Government Business Enterprise (GBE) at the time when prices/tariffs are being reviewed or reset;
>
> 2. a regulatory framework which is administered by a third party;
>
> 3. the adoption of mutually acceptable business objectives which are documented within a statement of Corporate Intent or equivalent; the documentation may define the pricing objectives.

Paragraph 525

> In Tasmania, however, the process of commercialisation is in process, and in the absence of any explicit statement of the objectives or the Commission's pricing policy, it is not possible to identify a particular tariff methodology as being the appropriate one. Accordingly, this report examines the implications of continuing with the current pricing policy and tariff methodology and outlines various alternative policies and methodologies.

Paragraph 804 which is included under the heading Major Findings and Conclusions

> Assuming, for example, that the continued attraction of large-scale, energy intensive industry to Tasmania is a primary objective, then continuation of the present policy may be appropriate. However, if the Government wishes to contain retail price increases, then the retention of this policy will have implications for the rate of return (on revalued assets) which the Commission can be expected to achieve, particularly as supply costs are expected to increase.

In view of these comments and findings, the Committee express their serious concern with the implementation of what appears to be a major change in tariff structuring philosophy which may lead to the loss of industry and future investment in Tasmania.

The Committee believes there has been inadequate technical debate and political consideration given to this matter. Until such time we strongly recommend that the traditional methodology be retained and mechanisms be established to ensure this under any corporate structure that might develop.

Relationships with industrial consumers

Evidence was heard concerning the relationships that industrial consumers have with the HEC.

From this evidence it is apparent that there is widespread appreciation of the technical capacity of the HEC. Consumers were also supportive of the 'hands on' assistance they received from the relevant Commission officers.

However, it is also evident to the Committee that the HEC needs to improve other aspects of their relationships with industrial consumers.

Evidence received supported the contention that the HEC has insufficient understanding of business imperatives that are central to the maintenance and expansion of major industry in Tasmania. The Committee acknowledges that the HEC is aware of this deficiency and has implemented an ongoing program to address this problem.

The Committee is of the view that a failure to adequately address this matter could have a serious impact on the profitability of the HEC and possibly lead to the loss of major customers.

Evidence was received from industry that the Tasmania Development and Resources (TDR) has built up a close understanding of the business environment. The Committee supports this contention. It is felt that to ignore this fact would not be in the HEC's or Tasmania's interest. Considerable advantage is to be gained by strengthening the relationship between the HEC and the TDR.

Accordingly, the Committee recommends that an appropriate representative of TDR should become a fully authorised member of all HEC Teams that are established to undertake negotiations with existing or potential major customers in the future. It is intended that this arrangement would include all negotiations concerning power contracts.

Review of the implications of Comalco staying or leaving Tasmania

The Committee has heard extensive evidence from HEC, Department of Treasury and Finance, TDK and Comalco regarding negotiations for the provision of a new unit price power contract and, in the second instance, an asset sale.

The failure of these negotiations to date has placed the HEC in the difficult position of finding firm sales for this potential excess of power. Although the reasons for this failure are not easily identified the Committee is of the view that a major factor is the unclear governance under which the HEC operates.

Apart from its own Act, it is noted that two particular pieces of legislation strongly influence the HEC's daily operation.

- The Tasmanian Public Finance Corporation Act 1985 which created Tas Corp, and empowered it to manage the external borrowings of the HEC; and

- The State Authorities Financial Management Act 1990 (SAFMA) which created a framework within which the Treasurer can issue instructions and direct the financial and operational performance of State Authorities. At present this includes inter alia the setting of dividends, and operating budgets.

- The HEC's legislative environment therefore provides competing sources of authority over aspects of its operations, and hence a diminished and unclear accountability of the Commissioners for overall performance. Thus the HEC, in common with some other utilities in Australia that are owned by Government, has a high potential for lack of clarity in governance structures and objectives.

Employment

In the event that Comalco leaves the State, direct and indirect employment for some 2,000 personnel will be lost. The Committee after review of the evidence heard and presented is not convinced that these jobs could be readily replaced.

Economic Growth

The departure of Comalco will presage a negative impact attributable to the immediate loss of the existing economic benefits Tasmania, and particularly the Tamar Valley, currently receives through the Comalco presence. Although less definable, but important economically, the Committee is concerned at the potential damage to investor confidence and Tasmania's image as a place to do business that the departure will cause.

Energy Prices

Dictated by its current drive towards commercialisation, and instructions from government to operate profitably, the HEC is likely to have no option but to increase charges in the event of the departure of an energy intensive major industry such as Comalco. The Committee has received no evidence to convince it the 237 MW that Comalco is currently contracted to could readily be absorbed by others.

Conclusions

With regard to *Terms of Reference (1)*, the Committee reports that *the expenditure of HEC funds on valuing assets, preparing strategic plans and developing policies on tariff charges to the various categories of the consumer in connection with its consideration of whole or part privatisation of the HEC* as follows:

The expenditure of funds has been reasonable in amount considering the importance of the subject matter to the Tasmanian community, the overall budget of the HEC, and the quality of the information received.

With regard to *Terms of Reference (2)*, the Committee has reviewed *HEC revenue including its sources and its relationship to payments into the Consolidated Fund* and reports as follows:

- **The total power charges applicable to both domestic and commercial users are in a category which provides, in a competitive market, some opportunity to increase charges to the domestic sector and limited opportunity to reasonably increase charges to the commercial sector.**

- **Charges applied to those major industrial users to whom power prices are critical are about what the market will bear.**

- **Currently the HEC does not have the capacity to pay a meaningful dividend to government as required by SAFMA.**

With regard to *Terms of Reference (3)*, the Committee has reviewed *other matters arising in connection with such expenditures and revenue including the assessment by the HEC of their likely impact upon -*

(a) *its contribution to the Consolidated Fund under the provisions of the HEC (Contributions) Act 1980; and*

(b) *Consumers*

and reports as follows:

- **The HEC remains involved in various studies concerning its eventual recommendations to government as to the future framework of its legislative and operational structure. Until such time as this is established, and in place, it is not feasible to predict the impact on the consolidated fund.**

- **The commercialisation of the HEC necessitates the current efforts to increase charges to MI's during new contract negotiations. The Committee is of the view that, in some instances, these negotiations will fail and this will almost certainly lead to price increases for consumers.**

- **Over forecasting of power demand growth during the last fifteen years has contributed to the present debt load of the HEC which in turn has impacted on the price paid by consumers and government revenue.**

Hon. G. A. Shaw M. L. C. (Chairman).

Parliament House, HOBART
27 April 1994

Appendix 1 — Witnesses who gave evidence

NAME	POSITION	ORGANISATION
Mr G. Longbottom	General Manager	Hydro-Electric Commission
Mr R. E. Gill	Manager Strategic Planning	Hydro-Electric Commission
Mr S. Holtby	Manager Customer and Commercial Services	Hydro-Electric Commission
Mr K. Faulkner	General Manager	Mt Lyell Mining and Railway Company
Mr R. Reid	Enviroment Superintendent	Aberfoyle Resources
Mr A. McDougall	Acting Mine Manager	Aberfoyle Resources
Mr G. Dineen	General Manager Customer and Commercial Services	Hydro-Electric Commission
Mr N. Fullelove	Engineering Services Superintendent	Renison Goldfields Consolidated Ltd
Mr P. Henschel	Electrical Engineer	Pasminco Mining
Mr G. Hawes	Manager of Engineering	Pasminco Mining
Mr D. Challen	Secretary	Department of Treasury and Finance
Mr G. Appleyard	Deputy Secretary	Department of Treasury and Finance
Mr K. Stewart	Managing Director	Comalco Smelting
Mr F. Correa	Chief Consultant Special Projects	Comalco
Mr D. Harrison	Principal Advisor	Comalco Bell Bay
Mr L. Jensen	Manager	Tasmanian Electro Metallurgical Company Pty Ltd
Mr D. Hodder	Manager Roast Asset Division	EZ Pasminco Metals
Mr S. Halliday	Senior Management Consultant	EZ Pasminco Metals
Mr P. Speare	Finance Manager	EZ Pasminco Metals
Dr P. Greenwood	Private Consultant	
Mr E. Best	Manager	Cadbury Schweppes Pty Ltd
Mr K. Wells	Senior Engineer	Cadbury Schweppes Pty Ltd
Mr H. Denney	Corporate Services Manager	Launceston City Council
Mr K. Hose	Manager Hydraulic Services	Launceston City Council
Mr W. Piesse	Chemist Manager	Launceston City Council

NAME	POSITION	ORGANISATION
Mr J. Edgerton	Plant Engineer	Edgells Birds Eye Scottsdale
Mr L. Revell	Plant Engineer	Edgells Birds Eye Devonport
Mr P. Turner	Electrical Engineer	Goliath Portland Cement
Mr A. Hilliard	Private Citizen	
Mr H. Edgell	Chairman	Energy Advisory Council
Mr D. Male	Private Consultant	
Mr N. Kerrison	Private Consultant	
Dr M. Vertigan	Director-General	State of Victoria Treasury
Mr R. Sulikowski	Director Commercialisation and Finance	Department of Treasury and Finance
Hon P. Rae	Chairman	Hydro-Electric Commission Board
Mr A. Reeves	Director	Office of Energy Planning and Conservation
Mr R. Adams	General Manager Engineering and Operations Support	Hydro-Electric Commission
Mr T. Pritchard	General Manager Corporate Services	Hydro-Electric Commission
Mr R. Rutherford	Economist	University ot Tasmania
Mr C. Brookes	Chief Executive	Tasmania Development and Resources
Mr B. McBride	Assistant General Manager Minerals and Mining	Tasmania Development and Resources