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**THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN
COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART, ON FRIDAY,
18 NOVEMBER 2016**

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

Dr DAVID CREAN WAS CALLED AND EXAMINED BY TELEPHONE.

CHAIR (Mr Dean) - Welcome, David. This is a public hearing open to the public and media. This inquiry attracts parliamentary privilege while you are on the phone talking to us. Once you leave the phone that privilege does not continue. The evidence will be recorded by Hansard and it will be up to the committee as to where that evidence goes. I think the committee would be putting that on the website. Because you are interstate, you will not be taking the usual declaration required of witnesses in these inquiries.

Dr CREAN - I am here to answer questions but I remind the committee that I have not been chair of Hydro Tasmania for over two years. I have had no contact with Hydro Tasmania since I left in October 2014. I did not keep any of the minutes or the board papers or any of the briefings that I had at Hydro, so I am going on memory. There are a lot of things I do remember, some details I may not, but I will make it clear to the committee when I am talking about the status of that.

CHAIR - I appreciate that.

Ms FORREST - David, I know you are relying on memory but this is a publicly available document. In the Hydro Tasmania Annual Report 2013 on page 12, there is statement of corporate intent signed by you. The connection of Basslink in 2006 placed Hydro Tasmania squarely in the NEM and fundamentally changed our risk profile. Can you explain your view about the fundamental changes and how Hydro Tasmania reacted?

Dr CREAN - In terms of that statement and the risk profile?

Ms FORREST - Yes.

Dr CREAN - Up until Basslink, the supply was entirely Hydro plus the old Bell Bay power station, which originally was around 220 megawatts, but at that time we were operating 100 megawatts, around that, because that was the capability at that time.

Leading up to Basslink, I do not know if anyone remembers in 2005, was the beginning of what turned out to be the three worst consecutive years of rainfall in Tasmania's history: 2005-06, 2006-07 and 2007-08. Basslink came on board in April 2006 or thereabouts. The rainfall and inflows were significantly down during the latter part, basically from June 2015. The decision was made by the board to purchase the Pratt & Whitney peak gas generators which provided 120 megawatts. Rainfall came later that year and then Basslink came on board.

Ms FORREST - You said 2015.

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Dr CREAN - Sorry, 2005-06, 2006-07, 2007-08 turned out to be the three worst consecutive years of rainfall. Basslink came on board and that immediately provided us with a net export capability but importantly, for security of supply, an import capability of around up to 500 megawatts. It changed the profile in terms of the imports and it provided basically another source of generation for security of supplies. That would have been the risk at that end. There were, of course, trading risks at the other end which we entered into as a result of Basslink but that is another issue.

Ms FORREST - We have seen board plans where Hydro's risks are set out but the risk of an extended Basslink outage was conspicuously absent. Can you tell us you saw this risk was? We have heard at various times there is a chance of a Basslink outage. We know undersea cables do break, sometimes for extended periods. I am just talking about the risks of a Basslink outage, not the odds of a simultaneous drought. What was your understanding of chances of an extended Basslink outage in your time there, how often it might occur and that sort of thing?

Dr CREAN - There were theoretical possibilities of the link being breached and then there would be the time that it took to correct that breach. They were risks. It was a new cable. It had been stress-tested. It operated efficiently and in the years I was there it operated very well. There were a few outages, not with the cable, it was at both ends there were issues from time to time but they were corrected in a timely manner. It did not really impact on our strategy as far as I recall in the time that I was there. Of course a breach could have occurred at any time and it was a matter of then considering the overall risk to supply. The Basslink cable was once source of supply and imports. It was also an export capability. You had your Hydro system, you had your gas backup, you had the opportunity to load-shed and to take on portable gas generators as well.

Ms FORREST - To go back to what your understanding was at the time when Basslink came online, what was your understanding of the chances of an extended Basslink outage? It does have quite a number of short-term failures, often due to temperature issues and things like that, but what was your understanding of an extended outage?

Dr CREAN - It had never been tested so it was a theoretical possibility. You only really know the chances of that happening once it occurs. It has a life of 25 years. It didn't happen in the 10 years that I was there, or the eight years that Basslink operated while I was there. You couldn't put a particular probability of a prolonged outage occurring.

Ms FORREST - Did you have an understanding - you may not be able to answer this - as the cable ages it becomes more likely that you will have an extended outage, or is it just a random event?

Dr CREAN - It probably does. In fact, worldwide I think there were only one or two other cables that were relatively young so there was no actual history of the capability of the cable. We made sure that it was stress-tested and that came out very positively, so we were confident that there wouldn't be any major breach, certainly in the short term. It had never been tested.

Mrs RYLAH - You mentioned that the Pratt & Whitney generator was purchased. Was it used in 2006 before Basslink came on?

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Dr CREAN - No, it wasn't. By the time it had arrived and it was set up, there was actually sufficient rainfall later that year in 2005 and early 2006 where there was no requirement for those machines. Basslink came on board in April 2006.

Mrs RYLAH - Can you recall what the Pratt & Whitney cost?

Dr CREAN - I think in the order of \$45 million.

Ms COURTNEY - I have a couple of questions around the board's decision in 2012 to lower the prudent water management level. Can you please tell me about that decision-making process.

Dr CREAN - The prudent water management level, as with the way Hydro operates, we operate under the GBE act. That specifies that we are to operate in a commercial manner and with Basslink you are competing with the private operators on the mainland. As a government-owned business, you are obliged to act as commercial as possible.

The water management levels were considered to be prudent to take into account the risk management for security of supply and operating as a commercial organisation at 30 per cent at the end of June plus or minus 1 or 2 per cent, building up during the winter rainfalls and then running down with the exports into the lucrative summer months on the mainland through Basslink, then going through the cycle again.

In terms of acting as a commercial organisation, that enabled us to capitalise on the relatively high prices in the summer months on the mainland, which is an important part of Hydro's financial plan and then at around 30 per cent at the end of June was considered a prudent water management strategy.

In the case where the rainfall wasn't occurring as predicted during the winter months, July-August through September-October, then you could alter your strategy of exports accordingly. You had a check and balance in that respect, to maintain the water levels depending on the rainfall that you were achieving in the winter months because that was the majority of the inflows during those months.

Ms COURTNEY - David, I am curious about the timing of that decision. Basslink was running for a number of years at the 30 per cent minimum water level and this reduction came in only two or three months after the introduction of the carbon tax. Can you tell me whether the carbon tax had any bearing at all on the prudent water management level?

Dr CREAN - No. When you say the prudent water level, is it the 30 per cent you are talking about?

Ms COURTNEY - Yes, the 30 per cent down to 25 per cent.

Dr CREAN - Yes. That was considered a commercial way of operating.

Ms COURTNEY - In the new tax environment with the carbon tax?

Dr CREAN - It was the best way to achieve an opportunity. It wasn't only with the carbon price because prices were high in the summer months on the mainland in any event. If you look at the prices during the summer months, they are higher because of demand and supply issues.

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That applied separately from the carbon price. It is when you received a high proportion of your revenues, regardless of -

Ms COURTNEY - I take your point that the timing of the sale will be seasonal with the winter rainfalls and the summer pricing. It was more the fact that there was a significant build-up in water levels and then a significant drop in water levels if you look at a chart across that level of the carbon pricing period. There was a structural lowering of the prudent water management level only a couple of months after the carbon tax. I think one of your documents, and I do not have it front of me, refers to 'optimising business value'. I would suppose from that and I would like your opinion on whether or not the carbon tax actually played a significant role in that.

Dr CREAN - There was one occasion when the carbon tax was coming in when we anticipated higher prices in the summer months. The storages with the rainfall available enabled us to maximise the opportunity at that time. But before the carbon price the strategy was fundamentally the same because you make a lot of your income from exporting during the summer months and you have to have the water levels at a certain level to do that. You then run them down for the exports but to keep it around that 30 per cent at the end of June and then to build up again.

Ms COURTNEY - You were chair during that 2005-2008 low rainfall period when we had been through that period of drought-like conditions. When you made the decision to drop the prudent water management levels to 25 per cent, was the government informed of the potential risks associated with a prolonged drought?

Dr CREAN - There was never any intention to drop it to 25 per cent.

Ms COURTNEY - The prudent water management level?

Dr CREAN - The prudent water management level was 30 per cent.

Ms COURTNEY - No, the board approved that to be dropped in September 2012 to 25 per cent, two months after the carbon tax was brought in.

CHAIR - Let David answer the question.

Dr CREAN - The only time I recall was that there was a time where there may have been a requirement to reduce it to 28 per cent and that was a one-off. It allowed us flexibility but as far as I recall, it was always the 30 per cent. There was no definitive change that dropped it down from 30 per cent as far as I am aware.

Ms COURTNEY - I was under the impression of the evidence that we have received that the prudent water management level was reduced by the board in September 2012 from 30 per cent.

Dr CREAN - I do not recall that. The only thing I recall was on one occasion, as I have said, there was a flexibility to reduce it to 28 per cent if required. I think that might have been exercised on one occasion but I think equally that it may not have been. There was no requirement to reduce it to 25 per cent, as far as I recall.

Mr BACON - On 28 August 2014 you sent the shareholder ministers the 2014-15 statement of corporate intent and this document forecast a dividend in the 2017-18 financial year of zero and

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no returns for that year or the two years after that. On the same day, the state government handed down its first budget and that contained an expectation of a \$75 million dividend in 2017-18. Exactly when did the government inform the board of this expectation?

Dr CREAN - There is a bit of detail in that. I remember at the time, which I made public, that there was a perfect storm occurring for Hydro Tasmania - I made that statement before I left in 2014 - which would impact on the 2014-15 and 2015-16 financial years. I think for 2014-15 we were anticipating a small profit but that was open to variation. The 2015-16 year, I am pretty sure, was a zero profit year because of the multitude of issues that were coming together. I also said that I was confident that over the next five years that Hydro could return to a \$70-\$100 million profit, which it was achieving before the advent of the carbon price.

Mr BACON - In that first budget the government brought down with the expectation of the \$75 million dividend, do you know how the Government came up with that \$75 million figure?

Dr CREAN - No. What year was that?

Mr BACON - That was in the 2014 state Budget. In the incoming government's first state budget on 28 August, they forecast a \$75 million dividend for 2017-18 but you had sent the letter on budget day to say that the board's expectations were that there would be no dividends in the forward Estimates.

Dr CREAN - I don't know that I was there at that time. I don't recall any correspondence to that effect. When the Government first came in, naturally - and I think it was April 2014 when we gave the first briefing to both the Treasurer and the Minister for Energy. We presented what I have just explained to you, the financial forecasts for 2014-15 and 2015-16 and the issues facing Hydro. We presented a number of financial options that could possibly improve the situation. That was the briefing in April. It was a draft presentation. As occurs with decisions that are made, there were a number of discussions with the ministers, with Treasury, feedback on various options. That was at my presentation. It was the only presentation I gave. I had received no feedback following that, and I finished in October.

Mr BACON - When you talk there about a range of options, did that include the sale of the combined-cycle unit at the Tamar Valley Power Station?

Dr CREAN - It included it as an option and it was on the basis that if the sale did occur, and there was a lot of discussion that would have occurred before any final decision was made, the sale would be in the order of \$100 million. We hadn't done any detailed assessment. It was a desktop analysis. That was factored into that scenario of financial options but there were a number of other options presented. There was a redundancy program, efficiency programs and so on that were also presented.

Mr BACON - I have some figures here about the use of the power station across different years. When the Government came to power, there were discussions about not using the Tamar Valley Power Station because the financial year 2014-15 was the only year where there was no thermal generation from the Tamar Valley Power Station. Did you have those discussions with the Government in that April meeting?

Dr CREAN - In 2013-14?

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Mr BACON - Sorry, 2014-15.

Dr CREAN - 2014-15. Well, they sound like simple questions but they are quite complex. The reason for the alteration in the operation at Tamar Valley was that in the discussions, when Tamar Valley was transferred to Hydro Tasmania, there were costs associated with that for us. We had the discussion with your government and Treasury in relation to that. We believed that we could create efficiencies in the operation of the gas contracts. One of those efficiencies was to run Tamar Valley in an optimal way that would actually save us money. That continued to be the case under the new Government.

Mr BACON - For as long as you were chair?

Dr CREAN - Yes. Basically it was only run at certain times of the year because it cost us to run. The moment the wholesale regulated price of electricity was reduced significantly with the new wholesale arrangements, it became very inefficient to run Tamar Valley. When it was in Aurora's hands and the wholesale price was a lot higher it was profitable, but there was a significant reduction in the wholesale price which made it unprofitable, so we only used it sparingly.

Mr BACON - In the 2013-14 year you used it when it was optimal to do so, but Hydro did not go on to do that in 2014-15 - is that correct?

Dr CREAN - Continuously while I was there, up until October 2014, it was run in an optimal way to reduce costs as much as possible to improve our financial situation.

Mr BACON - They are only financial reasons, not related to water levels or energy security when you make those decisions.

Dr CREAN - No.

Ms FORREST - I want to go to another area. David, when the transfer of the Tamar Valley Power Station occurred on 1 June 2013, normally when a company acquires an asset it records the acquisition and its assessed value. Why did Hydro Tasmania record the Tamar Valley Power Station at the same value in Aurora's books and then have to suffer a massive loss when it came to the value of what the asset was really worth? The Government may have insisted that you take over a particular asset, which I understand was the case, but wouldn't it be up to the board to decide how to treat it in its books, and why didn't Aurora cop the losses? After all, it was their asset.

Dr CREAN - Yes, that is a good question. Nevertheless, it came to us and we did an assessment of its value based on its generating capacity with discounted cash flows, which is why it was written down as an impaired asset. A legitimate question could have been why wasn't it written down beforehand, that is true, but the fact is it is a book value, it is on the balance sheet, but the issue was the costs associated with the transfer of Tamar Valley Power Station to Hydro. It was a whole-of-government decision; Hydro understood that. In any case, any government can direct an organisation to take on an asset. Nevertheless, it was transferred and we could run it more efficiently than would have been the case with Aurora, and there were some advantages in the gas contracts that were handed over as well.

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Ms FORREST - To go down the path a little further, when you adjusted the fair value of the Tamar Valley Power Station, you wrote down the value of the plant by \$216 million to \$101 million.

Dr CREAN - Yes.

Ms FORREST - In your view, the plant was worth \$101 million to Hydro Tasmania. What did you see as the Tamar Valley Power Station's role as part of Hydro Tasmania's generation network to make it worth \$101 million?

Dr CREAN - It was still a generation asset and, as such, generated electricity for sale. We used it sparingly, as I explained before. It still had some capability but it basically changed with the change in the wholesale electricity price you were selling gas generated electricity for, so it was that effect of things. It is pretty complex.

Ms FORREST - Yes. You also mentioned the onerous contracts that you took over - \$100 million in Hydro's accounts at the time. Did you think it was a bit odd that Aurora had not recognised it as a liability? Could it be considered contrary to accounting standards or was it basically a liability?

Dr CREAN - When you say the contracts -

Ms FORREST - The onerous gas contracts.

Dr CREAN - These were the total contracts, not just for gas but for generation of electricity. There was some gas sold directly, as I understand. They had a value, both in electricity generation and in selling directly, and we took some of the gas and started to sell it through Momentum. It was only very small when I was there but I understand it has increased, so there was a value attached to that.

Ms FORREST - What were the nature of the onerous contracts regarding the gas that Hydro was given or handed over?

Dr CREAN - The fact that most of the gas was used by Aurora to generate electricity and, as I understand, they were profitable or at least broke even because the wholesale price electricity under regulation was higher, but after it was transferred to us and with the changes in the regulated wholesale price, it became significantly less and therefore a cost.

Mrs RYLAH - David, I would like to go back to the modelling on the Tamar Valley Power Station. From your earlier evidence you said that it was to save money. Was there an expectation set by the former government that the Tamar Valley Power Station would be optimised under Hydro's control?

Dr CREAN - When you do not need to, you do not want to be running gas generation when you have Hydro and Basslink.

Mrs RYLAH - Right, but there was an expectation from the government that you would do that.

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Dr CREAN - We said that was the commercially sensible thing to do, but there was always the capability that you could ramp up the gas if there happened to be poor inflows or whatever, which we did in 2005-06-07.

Mrs RYLAH - Was the discussion of the options to improve those outcomes held with the government before April 2014?

Dr CREAN - It was transferred in 2013. It goes back again to simple questions but complex conditions. It goes back to the discussions with the previous government and Treasury about the potential impacts on Hydro Tasmania's finances by the transfer of Tamar Valley to Hydro. Obviously if the wholesale price had been kept the same, if you could run it profitably you would have had a different mix, but the wholesale prices were not the same, so as is stated under the GBE Act we have to act as a commercial organisation and had to run the gas generation in an optimal manner which limited our costs and the impact on our finances.

Mrs RYLAH - Can you remind me when the wholesale price dropped, David?

Dr CREAN - I do not know exactly but it would be a matter of public record; I just cannot recall. It was certainly after the Tamar Valley Power Station was transferred. It may have been three or four months into that year but I am not certain.

Mrs RYLAH - It was while it was under the previous government?

Dr CREAN - I am sure it was changed, yes, because that was part of the electricity reform. It was to change the methodology basically to reflect more the Victorian wholesale price rather than a regulated Tasmanian price.

Mr BACON - I could not quite hear what you said, David, but I think you talked about running the power station in an optimised fashion for Hydro Tasmania. Could you detail for the committee the difference between the way it was maintained while you were there, since it was transferred over to Hydro Tasmania and when it was decommissioned by the government?

Dr CREAN - It was maintained in a manner that would enable it to be switched on and generate electricity when required. It was fully maintained.

Mr BACON - Do you know how long it would take to get it up and running once the decision was made? If there was a spike in the price, how long before we could have it?

Dr CREAN - It could operate very quickly. Virtually it was a matter of switching it on.

Mr BACON - A matter of days?

Dr CREAN - Yes, certainly a matter of days.

Mrs RYLAH - David, would the higher carbon tax have made it more commercial to run the Tamar Valley Power Station in 2013-14?

Dr CREAN - No, not if you had adequate hydro storages. Remember, you have a wind source as well. It was the cost of gas that was the important factor. You would be using hydroelectricity and wind before you used gas.

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Mrs RYLAH - So the higher carbon tax didn't impact or give enough benefit for utilising the gas?

Dr CREAN - That is right. With the Hydro strategy you would be doing your exports through your wind and your hydro.

Ms COURTNEY - When the Tamar Valley Power Station was transferred to Hydro, did you ever explore the option to sell the plant?

Dr CREAN - No. As part of the electricity reform it was transferred to us. We only put it up as a draft option, a potential option, after further discussion in relation to Hydro finances in the meeting I had with the new government in April.

Ms COURTNEY - I know Mr Green said in media articles he would have jumped at the chance to sell the Tamar Valley Power Station and in 2012 he said he would explore the option of selling the power station. Despite the fact that he made those public comments, did he never raise that with Hydro?

Dr CREAN - For Hydro to sell it?

Ms COURTNEY - Yes.

Dr CREAN - No.

Ms COURTNEY - Did you ever explore the impacts of a sale of the Tamar Valley Power Station on the financial position of Hydro?

Dr CREAN - Only on that occasion when we were doing the budget process in that year did we explore that option of the potential to sell Tamar Valley. I do not recall discussing that with the previous government, although I cannot be sure, but in any event, as with the current Government, it was an option only. It was the first step of the process. It relied on receiving a price. If the price was nowhere near that it would have been dropped off. It also relied on future discussion with the government, because that is what you do always with major decisions, about the impacts of selling or not selling. It was only the first step. As I said, I never received any feedback after I put that or Hydro put that as an option to either government in April.

Mrs RYLAH - So it was the Hydro putting it, not the government putting it?

Dr CREAN - No, the Hydro put it as an option - 'This is what would happen.' We do a whole lot of financial scenarios all the time, and this is what would happen to the Tasmanian finances if you were to sell the combined cycle 200 megawatts and you received \$100 million for it, right? The next step would have been, would you receive \$100 million? That was our desktop. We would have had a lot of discussion between Treasury and the government, Treasury and Hydro, and Hydro and the government about the cost and then about the implications in terms of supply.

Ms COURTNEY - Thank you, David. I want to confirm something you said before, I think in a response to Scott, that after the carbon tax you were with Hydro and when you left Hydro in

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your role, you were confident it would return to a profitability of \$75 million to \$100 million as a going concern.

Dr CREAN - Yes, within the next five years, I think I said.

Ms COURTNEY - Yes. Excellent, thank you. I want to turn your mind to the entity Entura. Were you ever concerned about the long-term viability of Entura and did you consider alternative models for it?

Dr CREAN - Entura was a bit of a struggle. It was an amazing organisation, very highly skilled, and in terms of the marketplace it was very competitive and I think they did exceptionally well under the circumstances, but it was always pretty marginal. I think in the best times the profitability was around \$4 million but there was a time when work dried up, mainly because of the huge reduction in capital expenditure on transmission lines throughout Australia. I think there was a loss in those years of about \$1 million or \$2 million. We did consider joint ventures with Entura, but they really did not pass first base in terms of value to the organisation.

Ms COURTNEY - Did you discuss a sale of it with the former government?

Dr CREAN - No.

Ms COURTNEY - Did you discuss the other JV models with the former government?

Dr CREAN - Yes, we discussed the option of doing a joint venture. There were a number of models but it was in principle that this would be a way to improve the operations of Entura, but in the end it really probably at best was a neutral outcome so we decided just to continue on. We then pursued an equity injection model for certain projects in Asia.

Ms COURTNEY - In a similar light, were there any concerns raised by the former government around the continued ownership of Momentum?

Dr CREAN - Yes, I think Treasury was continuously questioning that issue. It was a backwards and forwards thing. We had no hesitation in explaining in full confidence why it was important for Hydro with Basslink to own a retail business on the mainland. It was a source of discussion over a period of time with the government and mainly Treasury.

CHAIR - David, I have a question on the Basslink. Following on from Ruth's first area of questioning in relation to the risks that could be involved looking forward with Basslink on line, I think you said that there were a number of other generation methods that you had considered. Had you and the board at that time taken into consideration a breach with Basslink and an extended drought period, as occurred? Had that been a board issue, had you discussed that, and was there any documentation of the risks that could be attached and how to get through that?

Dr CREAN - Again, it is an overall issue. When we did our financial budget each year, there were different scenarios of inflows which impacted on your financial returns and which impacted on the way you manage your water levels - as I explained, the flexibility within that 30 per cent at the end of June building up.

There are a number of different scenarios that were presented, like a one-in-20-year inflow, below average, and what this would do in terms of the finances and how you would change your

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strategy to maintain prudent water levels in the face of that. The fact is, in terms of this drought mitigation, it is nothing new to Tasmania. Up until the 1990s, before Basslink, it was accepted that the risk mitigations were with Hydro, the 220-megawatt Bell Bay. I was in parliament from 1989. There was a drought in 1990-91 where Bell Bay was fired up. It was very costly because it was diesel and I think there was a period in the 1960s. Up until that time it was considered effective risk management for the Hydro system in low-rainfall periods, drought periods, to have that backup of 220 megawatts. We then go forward to 2005, 2006 and 2007, and I was chair of Hydro during that time, when we had the worst three consecutive years of rainfall.

Before Basslink, in 2005, we purchased the Pratt & Whitney, that was 120 megawatts, then Basslink came on, which provided basically a generation capability of 470 megawatts. If you look back at those three worst drought years in a row, the first year was inflows for about 6500 gigawatt hours, the next year was about 7000, the next year 7500. We were receiving averages up until the 1990s of about 10 000 gigawatt hours. We de-rated that average to 9509 gigawatt hours subsequently because of climate change. In those years, we were significantly below the average for three consecutive years.

The demand in Tassie is around 10 000 gigawatt hours, so you had to make up roughly 2000-3000 gigawatt hours in those drought years. It is a matter of where you get that from. A 300-megawatt capability will deliver about 2600 gigawatt hours. We now have 300 megawatts of wind, which at 40 per cent production gives you a strong 120 megawatts. The gas-fired generation gives you 400 megawatts with the combined-cycle unit, which will deliver about 4000 gigawatt hours.

In the vast majority of cases, risk management is about how far do you go and what scenarios do you take on board.

CHAIR - With these cables around the world, there had been breaches in them so I take it that the board would have been aware of that. The board was obviously aware of the drought periods that this state can go through and that some of those drought periods are extended drought periods. Did the board sign off on any strategy to combat that should it happen into the future? Were there any signed-off strategies in relation to that by the board?

Dr CREAN - Droughts are all different. That is what I am trying to explain.

CHAIR - I understand that but I am asking whether or not the board had taken into account or there was consideration that we could have a breach of the Basslink cable and that at the same time we could go through one of these drought periods. Had the board directed their attention to that and did it have a written strategy in place to combat that if it occurred?

Dr CREAN - The consideration for these things done effectively each year in the scenario testing. The strategy is fluid enough to alter that and to respond to that. The issue is, if Basslink goes down and, yes, scenarios were that if Basslink goes down, you lose 470 megawatts, basically, of import capability as a generator.

CHAIR - David, can I ask you to keep these answers fairly short. We only have a few minutes to go and the members have questions.

Dr CREAN - They are complex issues. In terms of risk management, if Basslink goes down you lose 470 megawatts of generation capacity. If your hydro levels, depending on the time of the

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year, are 30 per cent higher than you have capability there. You have gas-fired generation and wind generation that provide a certain amount of generation. It just depends on the individual scenarios. You have the capability then to get portable generators, load-shedding, there is a whole committee of emergency management that sits the government and Hydro together to deal with the particular issue, depending on the nature of the drought.

CHAIR - Thanks, David.

Ms FORREST - One more question on that point and I want to raise another. David, I hear what you are saying and you say that 400 megawatts are lost if Basslink goes down, so why was that omitted from the top 10 risks facing Hydro Tasmania in the latter statements of corporate intent and risk strategies in your chairmanship?

Dr CREAN - You would have to familiarise me, I can't recall. What document are you referring to?

Ms FORREST - In the statement of corporate intent, it is not mentioned as one of the key risks.

Dr CREAN - We had a comprehensive risk management strategy with the risk board, management board and hydrology. A Basslink outage was always on the risk assessment but there is a difference between long-term outage and short-term outage. Short-term outages are no problem. With long-term outages, the longer they go, the more of a problem they are. But you would have contingencies to manage the situation.

Ms FORREST - I will go to another area with the Basslink facility fee swap. I understand that agreement was entered into in about 2002?

Dr CREAN - Yes.

Ms FORREST - What role did Treasury and you as Treasurer have in this contract at the time?

Dr CREAN - We went through this issue. I can't remember all the details of this. This is another complex issue but it is a matter of public record. We went through it in great detail in the GBE committee when Geoff Willis was CEO and I was chair. It think it was a Legislative Council committee. I can't remember the year but it is all a matter of record. The hedge arrangement was entered into on a fixed interest rate at that time. It was considered by the board at that time and agreed to as a hedge arrangement. It is all a matter of public record, very detailed.

Ms FORREST - Yes. You basically said that the board did discuss the swap fee, but I am just wondering whether any alternatives were ever discussed. If a contract can be entered into with a third party to swap the effective of a variable rate component with a fixed rate component, is it not just as possible to enter into another contract with another party where a fixed rate amount is swapped for a variable rate amount? Was this ever discussed?

Dr CREAN - I imagine it would have been discussed with the Hydro board. I was not on the board. I was Treasurer and under the Treasurer's Instructions, it is up to the Hydro board to consider hedge arrangements and they did that. You would have to ask the members of the board because I was not on the board at that stage.

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Ms FORREST - During your tenure as chair, interest rates were dropping every year and therefore the liability was growing quite considerably. Did the board, when you were chair, discuss this as an issue and perhaps ways to manage that?

Dr CREAN - It was a hedge arrangement that was entered into by the board in 2002 or 2003, whenever it was. I was not a member of that board.

Ms FORREST - I am talking about when you were chair and the interest rates were falling and so the liability was increasing.

Dr CREAN - Yes, well, it was a fixed interest rate, that is right. It was a facility fee or an arrangement that was entered into with Macquarie Bank at that time.

Ms FORREST - Did the board, under your chairmanship, ever look at a separate fee swap arrangement to try to counter those impacts it was having?

Dr CREAN - You would have to ask the current Hydro. I cannot recall in any detail. My understanding was it was a fixed contract and could only be changed by the agreement of both parties.

Ms FORREST - My question was, did you look at other options, taking out another arrangement?

Dr CREAN - I think it was a back-to-back arrangement initially that was entered into in 2002. It is a complex issue. I cannot recall the details.

Mrs RYLAH - I want to turn to capex. The capital spend in the periods from 2010-14 was about \$40 million per year. What I have seen on the Hydro website is a 10-year asset plan that is titled 'Sweating the Asset'. What does that title mean?

Dr CREAN - The asset management plan was a 10-year plan that looked at the fundamental issues of maintenance, monitoring and refurbishment with the principles being safety and security of supply and financial returns. They were the fundamental principles of the asset management plan. The 10-year asset management plan was presented and re-presented each year for review. The 10-year asset management plan that was initiated was a rigorous assessment of how much we were spending on capex in those areas of maintenance, monitoring and refurbishment and what was the most efficient way of dealing with that capital expenditure. After comprehensive assessment and independent assessment as well, the plan that you refer to was agreed to, which had a lighter weighting in the earlier years and a heavier weighting in the latter years.

Mrs RYLAH - David, I want to go back to the words 'Sweating the Asset'. What did that imply? Did that imply that the capital spend was lower than desired and increased the risk of asset failure?

Dr CREAN - No, not at all. I never used the words 'sweating the asset', so I do not know where that -

Mrs RYLAH - That is the title. That is what it is called.

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Dr CREAN - What, in the annual report?

Mrs RYLAH - No, in the document, in the asset management plan.

Dr CREAN - Right, okay. It is not my term; I would not have used that term. I cannot recall that being there. Basically, as I explained, it was the most efficient use of capital for the system that would be consistent with financial returns and maintaining a system that is secure and safe and capable of delivering a financial return. History shows that it has worked well.

CHAIR - David, on that point, I want to thank you very much for being part of this and answering our questions. The committee, I think, would have some further questions of you. We will discuss later as to how we move that forward, whether or not we put questions together and send them to you - would you be able to answer them for us if we opt for that?

Dr CREAN - Yes, that is okay.

CHAIR - We might opt to get you back again on the phone.

Dr CREAN - The problem I have is that you are asking me very detailed questions which I would have no problem answering if I had board minutes, papers and things to refresh my memory. I am just going from memory. Whilst I am all right on the strategies and stuff, when you ask me details about particular dates and particular documents, it is pretty difficult.

CHAIR - Thank you. I think the committee understands that and will take that into account. The committee may opt to take the position of putting them further questions we may have in writing and send them to you in that form.

Dr CREAN - Yes.

CHAIR - David, thank you very much. We appreciate your contribution and we will be in further contact.

DISCUSSION CONCLUDED.

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Ms CARYLE DEMARTE, CHAIR; Ms REBECCA KARDOS, CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR; Mr GRANT RUSSEL, CHIEF OPERATING OFFICER, CUSTOMER OPERATIONS; Mr KANE INGHAM, GENERAL MANAGER, COMMERCIAL SERVICES; Mr OLIVER COUSLAND, COMPANY SECRETARY/MANAGER LEGAL SERVICES; AND Mr CHRIS WARR, MANAGER CORPORATE AFFAIRS AND STAKEHOLDER RELATIONS, AURORA ENERGY PTY LTD, WERE CALLED AND EXAMINED.

CHAIR - Thank you, everybody. We have apologies from Ruth Forrest and Joan Rylah, who were not able to be here this afternoon. Caryle, is there any additional statement you wanted to make to the committee since your last appearance?

Ms DEMARTE - Thank you. I also take this opportunity to apologise that I could not attend the last meeting. It was shortly after my appointment as chair and I had other commitments I could not get away from.

Thank you for inviting Aurora Energy to again appear before the Parliamentary Standing Committee of Public Accounts to contribute to your inquiry into the financial position and performance of government-owned energy entities. Following on from the tabling of Aurora Energy's 2015-2016 annual report on 22 October, I am pleased to discuss with you today our financial and operational performance for the 2015-16 financial year and the future outlook for the business.

2015-16 has been another positive year for Aurora Energy, continuing to demonstrate its capacity to be a profitable, customer-focused, stand-alone Tasmanian electricity retailer. Aurora Energy's strong financial performance continued through 2015-16 with a profit after tax of \$30.2 million, resulting in returns to government of \$40.5 million. We have remained 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 in technology has reduced our operating costs and improved 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 amounted to \$36.2 million which was \$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 Regulator's 2016 standing offer 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 while having a positive impact on our 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.

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CHAIR - Thanks very much, Caryle. I suppose the only question I would have from that is about the 10 per cent reduction moving forward to 2018. What areas are you looking at there to gain that reduction?

Ms KARDOS - We made a target and have a strategic initiative around process excellence and finding those process opportunities. Caryle mentioned in her opening statement one of the best opportunities we found was our telephony solution. It had been in place for a long, long time and was in need of replacement. We were able to reduce costs by replacing that so the net impact of that project was positive on our financial performance. We are systematically going through our business operations, understanding how we do things today and how we can change that going forward to find those savings. We originally targeted 0 per cent in year one, 2015-16, because we thought it would take us a bit of time to understand the opportunity before we then implement it. Our target for this financial year was 4 per cent. We found 7 per cent in our first year. We do not know exactly where we are going to get the 10 per cent at this point in time but we have an initiative underway that is systematically going through our business to see how we can we do things more efficiently and get a better outcome for our customers for lower cost.

Mr BACON - Have you looked to change that 10 per cent target now that you have achieved 7 per cent in the first year?

Ms KARDOS - That is a really good question, Scott. We go into our forward planning cycle commencing next week and I think that is a key question for us as we start doing that because we have already found 7 per cent. I know the discussions internally are about whether there is more opportunity than we originally thought two years ago, and there may well be. The only challenge - and I will temper that - is that we are not in a static market, so there are rule changes coming through as part of the power of choice reforms. These are national rule changes which will require investment as some of the rules around metering competition flow through which are likely to increase our cost. I think the challenge for us is still achieving that 10 per cent and then absorbing those additional costs that may come through from those rule changes. That is probably the key factor we will need to consider in that.

Mr GAFFNEY - We were presented information by the A-G this morning. It says that the regulator understands Aurora is yet to offer market contracts to residential customers apart from Aurora's Pay As You Go product. Is there intention to do something in that space?

Ms KARDOS - We do offer market contracts to small-business customers. Where competition does exist, which it does in the small-business space, we offer market contracts. Grant, do you want to share some more?

Mr RUSSELL - We have a couple of thousand small-business customers who have taken up a market contract. In terms of residential customers, that is additional changes to our infrastructure and billing system. It is the cost-benefit return of making those significant changes to the system and enabling new contract types go into the billing engine.

We will look at that. In the short term, the priority when we are established are small business sales and service team, which is focusing on small-business customers and giving them a better level of service and giving them a better outcome. That is where we focused the system changes and the service option.

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Mr GAFFNEY - We heard this morning that there was a certain level where a person qualifies as a small business up to a certain usage.

Mr RUSSELL - It's 150 megawatts per hour.

Mr GAFFNEY - What happens if there is a business just over that? Is there any percentage latitude in that?

Mr RUSSELL - It is a really good question. You would look at it over a 12-month period.

Mr GAFFNEY - Okay.

Mr RUSSELL - There is some latitude, it's a 12-month review period. If somebody has gone up by 1 megawatt, that is 1 megawatt over 12 months; you would go back and look at one month's spike and you would do the right thing by customers. You would work with the customer to understand whether they are small or whether they want to go large and want to take a benefit of the large-customer contract. That is the way you would work it.

While the regulations say 150 megawatts, you can actually work with the customer to understand what they want to do and that is the process we adopt.

CHAIR - I think I've got this right. It was in the paper yesterday or the day before about the smaller customer subsidising the other customers. What happens here and why does that occur and what is going to happen? You have said, if the paper is right, that you are addressing that issue.

Ms KARDOS - For standing offer customers - this is approximately 30 000 small business customers and then all of our residential customers - we go through a price determination process. The Tasmanian Economic Regulator did a full price investigation last year. As part of that, we made a tariff strategy submission. As part of that submission, we outlined that we would like to move to cost-reflective prices. These are where the tariffs reflect the movement in the underlying cost inputs - network charges et cetera. Whereas for the last six years since 2010, we have had a uniform price increase regardless of what the underlying movements have been. As a result of that, every tariff has either decreased by 7.2 per cent, as it was in 2014, or increased by 3.43 per cent, which is what we saw on 1 July last year.

Our tariff strategy, which was approved by the regulator but he still has to approve our submission on that basis, is looking to start moving some of those cross-subsidisations that do exist in the tariffs, which has basically come about because of that uniform price change that we see year on year. Does that answer your question?

CHAIR - I think it does. I am fairly happy with that. The other question I have is: we have been told, from looking at your reports, you have lost a major industrial customer through the year, is that right? Can you tell us about that and who the customer was?

Ms KARDOS - I can't.

CHAIR - Sorry, my mistake. That is an area we would like to pursue in camera with you.

Evidence taken in camera.

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Ms COURTNEY - I have a couple of questions around the CEO's report in the annual report in regard to a bit more detail around some of those statements. In 'challenges and opportunities' you talk about the fact that it is an environment of change at the moment within the electricity market. What do you see as happening in the electricity market going forward, and what are, I guess, the key risks and opportunities for Aurora over the next couple of years, but also in the longer term?

Ms KARDOS - That is a great question, Sarah. Some days we wish we had a crystal ball. I have been in this industry for over a decade and I keep thinking it is coming into a quiet patch and I have got it wrong. It is a really interesting time in our industry. I will start from a retailer perspective. Our customers have changing expectations. One of our key focuses is giving them greater choice, and that was part of our tariff strategy submission to the regulator. Even though we have not seen any competition emerge in the residential spaces yet, that does not mean customers do not want and deserve choice. What can we do around that space? What can we do in terms of bringing new products and services to market to enable Tasmanians either to manage their energy, have greater control of their energy and have greater understanding.

One of the things we are doing at the moment is a concept trial of our next generational pre-payment solution, Pay As You Go mark 2. The reason we are doing that is because that product was developed in 1995. It stood the test of time and has done really well. Our research has shown that our customers really value the control it gives them, but now what they want is convenience. That concept trial has been in place now for about a month. As a result of that, instead of them having to interface with the meter, which is often not a particularly convenient space, especially in winter, they can now see what they are doing, see what their consumption is within the home, pay from the luxury of their couch or if they are interstate, from wherever. The anecdotal feedback we have to date is really positive. That is just one example of what we can do as a retailer and how we can create value for our customers by providing greater choice.

As part of our tariff submission, we also introduced a new time of year standing off a time-of-use tariff. We did that because customers who can shift their consumption to different parts of the day can have greater control over their energy bills because they can pay far less on tariff 41 or tariff 41 and 31 at off-peak periods. Again, it is about giving them greater choice and options around that. There is a lot of discussion around customers' needs and wants going forward. The key challenge, because that obviously requires investment, is how we can do that as a low-cost energy retailer sensibly to create value and opportunity for our customers.

When you come back from that as being a participant in the market, there is a lot going on in the wholesale space. Energy security is not just a topic for Tasmania, it is a topic for us nationally. How do we transition to renewables? We are in the enviable position where we have renewable energy and are connected to the National Energy Market, so we will be part of that journey. As a retailer with no generation backing, obviously one of our biggest strategic risks is our exposure to that wholesale market and how we manage that prudently, make sure that we go through that journey and still deliver solutions and energy services that our customers value while still minimising some of the price shocks potentially that can come about as part of that energy transformation, that transition to renewables.

In addition to that, we operate in a highly regulated environment. The COAG Energy Council and the AEMC have this whole power of choice reforms which are looking at moving more to cost reflectivity, sending price signals to customers so they can move their load so we do

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not have to over-invest in our networks. We are in discussions with TasNetworks on how we can facilitate that because we are the ones with the relationship with the customer when it comes to that.

There is metering competition where we are seeing potentially a change. Traditionally, metering has always been provided by the distribution business. The retailer is going to become responsible for that in the future. That is a whole new role and function for us. We did it two years ago, through the transfer that went to TasNetworks. We are now back looking at what that looks like, how we do that affordably and how we can create some value for customers through that as well. That is some of it, in answer to your question. It is a moving feast.

Ms COURTNEY - We have had a lot of questions in previous sessions over the past few months around committee members' concerns about electricity prices for farmers as a result of the energy crisis and some of the prices farmers pay. Your report refers to a partnership with Rural Business Tasmania. Can you expand on that relationship and what that is doing with our businesses?

Ms KARDOS - We entered into a partnership with Rural Business Tasmania recognising that many of our agribusiness customers were being affected by drought conditions. That was the original impetus for that in terms of payment arrangements -

Mr RUSSELL - Energy consumption and audits. They form part of our YES program and Rural Business Tasmania is a member of our vulnerable customer working group. They represent their clientele which is primarily agribusiness and we look for opportunities with them to how we can better support their community. That was around energy audits, supporting financial advice for farmers, small businesses and the agribusiness sector. It was a joint program. We helped them attend Agfest and worked a joint stall with them with consumption calculators and other things we could do together to help that sector.

Ms COURTNEY - You mentioned the YES affordability program and your highlights say you have implemented the first stage of that. Can you tell me about the further stages that are to come?

Mr RUSSELL - From my perspective, it is probably one of the things I am most proud of. We have helped over 4 000 customers in the last 12 months. That is 4 000 cases we have gone through with our customers, helping them to reduce consumption, plan better for paying their bills, work out how they can reduce their bills and incentivise them to make payments. One of the things we have done really well is rewarding good behaviour, so rather than taking a stick approach we have adopted a carrot approach. We are trying to help people get out of that position. We have done that with a number of key partners such as Anglicare, St Vincent de Paul et cetera. We have also partnered with NILS. NILS is one of the big components and we utilise their customer base and help them through the parts of energy efficiency products and services. We gave them significant funding in the last financial year to help them and to help their constituents, basically 6 per cent of the purchase price - improved services and products we funded. That is something really important as to who we are.

Ms COURTNEY - With the customers you help, what type of monitoring do you have to see the ongoing success of the assistance you provide?

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Mr RUSSELL - We do quarterly assessments of each customer. We case manage our customers and have case managers who has a range of customers they look after. The minimum each customer gets is at each bill point we will have a telephone conversation and go through with that customer that their bill is up or down, that they are ahead in payments or behind in payments and we think they should increase their payments by \$5 a fortnight, for example. We ask them if we can do anything else. We have consumption advisers and if we notice a customer is going up we will get a consumption adviser to watch the customer and do a full audit.

We are also now doing household visits with Anglicare in a joint approach. We go into the premises and go through where they can save money and what they can do differently. The biggest one I think we have found is air conditioners. There is a fallacy that people have been told to keep their air conditioners on 24 hours a day. People have been doing that because they have been told by the installers that it is more efficient. When we ask them if they would run their car in the driveway for 24 hours a day because they might want to get in it at some point they of course say no, so it is changing that mindset. It is an education piece and we have invested a lot in that program.

CHAIR - It is good the customer is seeing that sort of benefit coming from their retailer.

I want to go back to the farmer situation. You have been questioned about this previously as well; I realise that. There was a lot of angst at the time of the low water with the Basslink down, the renegotiation of contracts from some of those farming areas and the huge increase in the contracts they were entering into at that time. Where are we with that now? As things loosen up the renewal of contracts will come back to a reasonable level again as they were seen previously. What will happen to those who had to go on to these very high contracts at that time? What is their position?

Ms KARDOS - Ivan, as we shared with the committee when we appeared before it previously, that impact they would only see in the first period of the contract. If they went on to a three-year contract they would have only seen that in the first year, by way of example. They do not have an ongoing effect. We limited it to the full extent we could to minimise the impact on those customers. If a farmer, using your example, entered into a three-year electricity supply contract with Aurora in February this year, they would only have seen that price impact in the first year. The pricing in years two and three would not have reflected the prices we were experiencing in that point of time.

CHAIR - After the first year then, would it come back to the previous level or similar to it?

Ms KARDOS - No. I will let Grant explain how they do the pricing.

CHAIR - I raised it again because I was not aware of that from the previous questioning and answering. It probably was there but -

Mr RUSSELL - It is a complicated component. For some customers, it may only be for one quarter where they actually get the price impact out of 36 total months. It may only be three months where there is a price impact. That price impact could be there for any number of reasons at any point in time when a customer comes up to re-contract. If there was a significant price in the market, as in Hazelwood, for example, and what was happening at Hazelwood, that would have a knock-on price impact.

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Mr BACON - And you can decide, when you set your contract, how long you are going to have that for?

Mr RUSSELL - Effectively, Scott, the customer could say, 'I want 12 months, I want a two-year, I want a three-year, and yes, I know the first period may be more expensive but if I go longer, the prices are lower in the outer period so I am getting a benefit in the outer period.' That is a customer choice. We provide numerous quotes to customers, be it on 12 months, 18 months, two years or three years.

Ms KARDOS - One of the challenges we have with where pricing is at the moment is that it is on an upward trajectory at the moment, and that is carrying across the whole national energy market. The risk for a lot of customers is that they think, 'I will just get a short-term contract until prices come back down', but we are not seeing that trend just yet. The advice we have been giving customers is: 'You are probably better off contracting for a longer period because given the upward trajectory, you are probably going to get a more favourable price now than you are in six months' time.' That is the challenge. No-one really knows where the market is going to go. It is a market that we operate in. It goes up and it comes down. The circumstances we had in the first quarter of 2016 were quite unique. That has been contained but we are still seeing quite a lot of volatility in the market.

CHAIR - The other question came out of some discussion we had this morning with one of our other members. You have talked about competition and what is going to happen in the future. This question was raised previously as well in relation to solar generation and businesses generating their own energy. What is the risk or impact that is likely to have on you? I guess it is exactly the same as with the questions we asked before, I do not need an answer, I suppose we have already got it. We have the battery situation and we are seeing a lot more development in that area. We are seeing battery prices come down, and the retention and holding of power and energy. We are seeing a greater use of solar and hot water systems. What does that mean for you? How quickly is the impact developing?

Ms KARDOS - It probably goes back to Sarah's question as well. We are seeing technology innovation as well in terms of our market. Customers have choice. They can generate their own energy and we support them in doing that. What is the impact on us financially - is that the nature of your question?

CHAIR - Yes, financially.

Ms KARDOS - It is not having a material impact on us at the moment because, at the end of the day, the level of solar penetration is not to an extent that it is having a material impact. There is still a strong level of new solar installations going in every month. The amount of energy as a proportion of the total is very small. It is not having a material impact on our business but over time, and I mean in 10-plus years, then yes, it could have a material impact on our business, but at the moment it is not.

CHAIR - My next question comes from that: what will be the impact on Aurora when we see the grandfathering clauses conclude? Is there an impact on you? I think it is five years, isn't it, so we would only have another two years of that to go.

Ms KARDOS - It runs through to December 2018.

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CHAIR - What is the impact for you?

Ms KARDOS - It will be a billing change and a discussion we will need to have with those customers, explaining to them the changes and that they will need to move to the fair and reasonable tariff, which we will do at that point in time. It has no financial implications for us as the differential between the fair and reasonable and that legacy feed-in tariff rate is actually funded by TasNetworks.

CHAIR - You will have that discussion with each independent customer that is currently on that grandfathered clause. Is that what you are saying?

Mr RUSSELL - If we go back to the point which was made earlier about customer expectations and what services and products we offer, it is in the customers' interest and our interest that we develop a proper product that suits their needs having solar, be that time of use or whatever else. We will walk through with that group of customers what product they would like to utilise and what works for us as a business and then we will work that through. We would have to get regulatory approval and other things potentially but that is what we would do. It would be what product choices are there, how can we put that into the market, and the most efficient and effective way that gives the customer something they want and meets the needs of us as the retailer as well.

Mr REEVES - Ruth and James have raised some issues that we had some discussion with the Auditor-General this morning so I might follow some of those lines. It was around the REC inventory in the first instance. I noticed fairly significant holdings of RECs and the reason for that. Were these RECs bought in anticipation of Aurora's longer term REC liability or is there a trading aspect to your REC holdings as well?

Mr RUSSELL - The reality is, the movement primarily is around the value rather than the volume in terms of the dollars. The value of certificates has massively increased. There is an element there where we have a percentage of our requirement through an offtake agreement. We have that but the question is, do we trade in RECs in purchasing? We don't trade. We meet regulatory requirements, not trade in RECs.

Mr REEVES - Perhaps unrelated, there is an observation on the fairly significant cash holdings of the business. These are quite significant cash holdings for this business. What would you offer as the reasons for that level of holdings, first, in cash and second, overall in cash and other financial assets?

Mr INGHAM - As a retailer, it is probably one of the only tangible assets we have as cash, as you would have noted in our financial statements. One thing to be mindful of with our high cash balances is, there are significant swings in that. It is approximately \$60 million at the end of 30 June but we have quite significant payments to AEMO and TasNetworks for wholesale energy and network costs. That \$60 million can swing quite significantly.

Mr REEVES - It really is a float for working capital.

Mr INGHAM - Absolutely. We have requirements under our Australian financial services licence to hold a certain amount of liquid assets. We also have prudential requirements to our energy market operator. When you bundle those things together, there is quite a significant requirement for us to have a large level of cash. That is my response.

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Mr REEVES - Who makes the decision on the \$60 million? Is it the board or the business? What if it goes up to \$75 million?

Mr INGHAM - The fact that we pay a 90 per cent dividend to government each year means that it is never really going to fluctuate too much from the current level it is. It does throughout the year. We build that up then we pay a dividend to government. We pay taxes as well and some of those are quite large amounts. In essence, we get to keep 10 per cent of what we make through the dividend policy. It never really builds up much beyond that. They are our projections.

Mr REEVES - That's the end of the year. When are the dividend payments?

Ms KARDOS - On 31 December.

Mr REEVES - Ah, so we would see that coming down quite significantly on 31 December.

Mr INGHAM - And tax payments after year's end. We have made them.

CHAIR - Thank you very much for your attendance today.

THE WITNESSES WITHDREW.