

# UNCORRECTED PROOF ISSUE

**Thursday 7 December 2017 - Legislative Council - Government Businesses Scrutiny Committee A - Tasmanian Networks Pty Ltd**

## LEGISLATIVE COUNCIL

### GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Thursday 7 December 2017**

#### MEMBERS

Mr Armstrong  
Mr Farrell  
Ms Forrest  
Mr Gaffney  
Mr Hall (Chair)  
Ms Lovell

#### IN ATTENDANCE

**Hon. Guy Barnett**, Minister for Energy

**Ministerial Office**

**Mr Michael Connarty**, Senior Adviser

**Tasmanian Networks Pty Ltd**

**Dr Dan Norton**, Chairman

**Mr Lance Balcombe**, Chief Executive Officer

**Ms Bess Clark**, General Manager Strategy and Stakeholder Relations

**Mr Ross Burridge**, General Manager Finance & Business Services

**Mr Wayne Tucker**, General Manager Strategic Asset Management

**The committee resumed at 11.43 a.m.**

**CHAIR** - Thank you, minister, in your other Energy portfolio hat.

**Mr BARNETT** - Thank you very much, Chair, and thanks members of the committee for this opportunity.

**CHAIR** - I invite you to make a short opening statement in regard to TasNetworks.

**Mr BARNETT** - Thank you, Chair. A very brief opening statement from me. TasNetworks reported a profit of \$93.9 million, marginally above budget by \$1.2 million. It has meant total returns to Government of \$176.2 million.

The main point to note is the work of TasNetworks, consistent with our Tasmania First energy policy, to provide the lowest possible power prices with the target to have the lowest power prices in Australia by 2022. I will also note TasNetworks' work to achieve security of supply, consistent with our Tasmania First energy policy. I note their strong engagement with ARENA and the announcement a couple of weeks ago between ARENA and TasNetworks of \$10 million from federal and state governments to support the further business work and business plan with respect to the second interconnector. The Government strongly supports that work.

I thank them also for their involvement with Goldwind and the Wild Cattle Hill wind farm, the progress on that and their other good work which I will let the chair and the CEO outline.

It has been a good year. There has been a lot of progress. I will pass to the chair.

**Dr NORTON** - I will be very brief because we should use this time to answer questions rather than to talk. I want to make four points. One is to remind you we are a relatively new business in the sense we merged about three years ago. We are very happy with the progress we have made in becoming one business. We have a major project which we will talk about in discussion, the Agilis project, which has come to fruition. It is a set of new systems to enable us to operate as a single business. The focus of our business is we are very keen to do whatever we can to ensure there is downward pressure on prices. We have had a 20 per cent reduction this year due to a number of things that we can go into. We want to continue to do whatever we can to ensure Tasmanian customers get the delivery of power on an efficient and effective basis at a reasonable cost.

Safety continues to be a major issue for us. I want to stress the safety of our people and our customers is a critical issue. I can outline the plans we have in respect to that.

The final thing is a personal comment. Some of you may not remember, but I go back in the electricity industry a long time in Tasmania. When I was CEO of the then Hydro Electric Corporation, we convinced the government of the day to look at the first Basslink interconnector. Towards the end of my career in the electricity industry, I am very delighted TasNetworks is involved in looking at the business case for another interconnector which we will, no doubt, talk about as we go on. That is all I wish to say.

**CHAIR** - Thank you, Mr Chairman. I want to go to one issue. It has been a festering, running issue for some time, and that is the ownership of poles and wires. It was brought up with us very strongly yesterday by the TFGA. Has that been resolved? If not, when it is going to be resolved? It is the bane of many people's existence out there at the moment and there are a lot of questions being asked.

**Mr BARNETT** - Thank you for the question - a very important one particularly for the rural and regional communities around Tasmania. I confirm there has been a lot of work done on the private electricity infrastructure and I confirm what has been understood for a long time, that they are privately owned. I will ask the chair or CEO to summarise where we are up to in our involvement with relevant stakeholders, including the TFGA. Clearly, this is an important issue. TasNetworks is engaging with the TFGA and other key stakeholders to ensure clarity around the

ownership of all private electricity assets and to ensure any doubt is removed. This has been an issue for past governments and we have come to the table. I acknowledge my predecessor in this role and the work he has done, and the leadership Mr Groom took to progress this matter. There are approximately 46 000 private electricity power poles and related infrastructure around Tasmania, so it is an important issue. Perhaps if the chair or CEO could add to that.

**Mr BALCOMBE** - The minister has done a very good job summarising where we are. I might just talk about our internal processes about how we have landed and confirmed that position.

We have done some work with the Department of Justice, which has oversight of electrical safety. We have been working in concert with the department since around June this year. That has involved two processes. The DHA went off and got some advice, which came back quite early in the process with a counter view based on some very preliminary information. Through our legal team we engaged special counsel to track through the history back to 1941, either through Hydro by-laws or connection arrangements with various customers over that time.

That advice confirmed that basically it means that we own to the first pole - 'we' being TasNetworks - and any infrastructure beyond is owned by the private landholder. That excludes where there is a transformer on that pole and the meter because we own it. The metering infrastructure is ours. When we confirmed that view internally, we then shared the advice we had sought with the Department of Justice and, based on that additional information, their view aligned with ours. Basically since then we have been working with stakeholders - most notably TFGA - in regard to that. We met with them as recently as Monday to take them through. I suggest that they still want to go off and understand the position more fully. We would put the offer to help them firm up that view, also from the perspective of offering the opportunity for us to engage with their members in particular, to help share the view and get everyone comfortable with that outcome.

**CHAIR** - To confirm, you are saying that you own the transformers and on any private land, whether it be a farm or whatever, you own the first pole from that -

**Mr BALCOMBE** - To the first pole, yes.

**CHAIR** - To the first pole. Just the wires to the first pole - so the first pole then becomes the domain of the private landowner. Is that what you are saying?

**Mr BALCOMBE** - Yes.

**CHAIR** - Your advice came from, you said, senior counsel - from whom?

**Mr BALCOMBE** - Jack Rush SC. Also, we engaged with the Solicitor-General as part of that process via the department.

Where, to some extent, this may create some confusion is that the Government, and the prior government, requested that Aurora and TasNetworks continue to be responsible for the inspection of those assets. Our people go onto the private landholders' land to inspect those assets. Why do we do that? We want to make sure they are safe. We want to make sure, from the perspective of vegetation management in particular, that the vegetation is under control around those assets. That has probably contributed to the confusion: we undertake that role on behalf of the state. Our

badge people go on and inspect those assets. That may have contributed to the confusion. We do that as an obligation; we don't get reimbursed for that. Many other states that do actually include that in their operating costs but we don't do that. We do that as a service. Where we spot a defect, we pass that information back to the Department of Justice and it deals with the owner. That is probably something that has contributed to the confusion. As part of the stakeholder management process, we'll make clear what our role actually is and what our role isn't. What we don't do is own those assets.

**CHAIR** - I hear your answer, but I think there are other contra views out there.

**Mr VALENTINE** - A supplementary question on this. It gets very interesting when you look at liability. If you are inspecting the poles and the wires, I presume, are you saying the wires belong to TasNetworks or to the owner?

**Mr BALCOMBE** - Everything beyond the first pole.

**Mr VALENTINE** - Right, including the wires?

**Mr BALCOMBE** - Yes.

**Mr VALENTINE** - If you are inspecting those assets, not just your assets, and there is a failure, where does the farmer's -

**Mr BALCOMBE** - That's a very good question.

**Mr VALENTINE** - Especially if, for instance, there is a failure and someone is electrocuted as a result of the failure, it is your electricity before it gets to their premises. Where does that sit?

**Mr BALCOMBE** - It is a very murky spot, that is what I can say. There have been a couple of precedents, more recently. One incident I can talk about, where there was a pole that fell over on Bruny Island many years ago -

**Dr NORTON** - When I was CEO.

**Mr BALCOMBE** - When Dan was CEO of Hydro. The liability is unclear.

**Dr NORTON** - It was a fatality. Just to elaborate, we had inspected the pole, advised the landholder, the owner of the pole, that it was defective, and then subsequently they had not fixed the pole up. Very unfortunately, during a storm event a lady was standing next to that pole and it failed and killed her.

**Mr VALENTINE** - I can understand that because you had already notified them. I am talking about a situation where you have done the inspection, there is a failure but it hasn't been obvious that there is a defect in the pole.

**Mr BALCOMBE** - As I mentioned before, one of the things is that the Government has asked us to do this inspection on their behalf. One of the elements that hasn't been clear is actually ensuring that we have ability to access the land and also in regard to this question of liability.

**Ms FORREST** - A legal ability, you mean?

**Mr BALCOMBE** - Yes. That is another thing we have been doing alongside this clarification of - I suppose that's where we started with the Department of Justice, to work through this liability and access regime to ensure we had the right liability protections in place and allocation, and then, alongside that, to ensure our people had the appropriate access. Then, to some extent it has been overtaken by this ownership issue. Now the ownership issue has been clarified, we'll circle back to ensure we have the appropriate liability regime and access arrangements in place.

Private ownership presents a risk for distribution businesses all over the country. There are two examples I can cite. One is Endeavour Energy, a distributor in New South Wales, and Western Power in Western Australia. What occurred there was a fire - you might remember those quite severe Western Australian bushfires a few years ago - that started off a private pole and that private pole had been condemned. Western Power essentially had done everything appropriate within its control, but the only thing that hadn't occurred was that that customer had replaced that pole.

It was a similar situation with Endeavour Energy in New South Wales. The question comes that when you get into these legal situations, the lawyers will look for who has the deepest pockets. Irrespective of the fact that we have the appropriate liability regimes in place and the right protections, generally what would happen with private infrastructure is distributors will get joined into actions. That is why it is so important these inspections are done properly, and we have the appropriate notices. If we are not comfortable that the owner of those assets is dealing appropriately with the risks - that is, there might be a condition or vegetation over a looming high bushfire period - we can disconnect that customer until it is remediated. That is a fairly punitive outcome but it is a consideration of how you balance the risks with regard to bushfire risk and danger to the community versus the responsibility of the landholder. It is a very complex space and it does present a risk to this business and to the state. They will see us as a large enterprise and we will generally be joined in action. That is why we are working so hard as part of the inspection arrangement to ensure where there are defects, they are identified and then dealt with.

**CHAIR** - We will stick with the poles and wires on private land because it is a very important matter and there are other members who want to ask other questions.

**Ms FORREST** - Just clarifying, the transformer is owned by TasNetworks but the pole it's on will be owned by the landowner?

**Mr BALCOMBE** - My understanding is that even the pole the transformer sits on is owned by us.

**Ms FORREST** - I just wanted to clarify that because there have been some questions raised about depreciation of the assets. I notice on page 66 of your annual report there is depreciation of the transmission network and the distribution network. There has been a query raised as to whether TasNetworks, and formerly Transend and formerly Hydro has been depreciating the assets owned by the private landowner or just theirs. Can we be sure they have only been depreciating their own?

**Mr BALCOMBE** - I understand the question. There are two layers to that question. First, these assets are owned by the landholders, so therefore they don't appear on our books, they

appear on the landholders' books. If that transformer and pole is owned by us, that would sit in our asset register. That is what we are depreciating.

The landholders own those assets so by rights they have the ability to depreciate them. This is one of the questions raised by us with the TFGA when we met on Monday. I can't answer this. Have they been depreciating those assets? I don't know.

**Ms FORREST** - The farmers, you mean, or the landowners?

**Mr BALCOMBE** - It is not all farmers, we have to be clear on this. It is broader than farmers, with the greatest respect to our colleagues on the TFGA. From the point of view where there is a business purpose to that connection and those assets, the owner of those assets, being the private landholder, would be entitled to a depreciation deduction. The question has been raised as to whether they have been claiming those deductions -

**Ms FORREST** - That is a matter for them obviously, but during this period of some confusion about who owned them was there a period where perhaps TasNetworks was counting them as their own?

**Dr NORTON** - No. We always believed they weren't ours and we have never put them on our balance sheet or depreciated them.

**Ms LOVELL** - Going back to what Dr Norton was saying about disconnecting the power at the end if there was maintenance required and it wasn't done by the landholder, are there instances where there might be this infrastructure on somebody's land that is then owned by that landowner but the infrastructure is used to get power to a third property or another that is completely separate? Does that mean if that maintenance was not kept up and the decision was made to disconnect, that would impact on somebody who might have nothing to do with the property and the infrastructure on that property?

**Mr BARNETT** - Through you, Chair, thanks for the question. That is an operational matter for the CEO.

**Mr BALCOMBE** - In 99.9 per cent of cases, the private ownership issue is simple. Instances that you are referring to, where there are complexities, where there might be a private pole on one piece of land that subsequently feeds two properties, where there was a private line and then another private line off that, I think would be pretty rare. Generally what happens is our lines go through to a meter.

I am not saying it does not happen, but irrespective, it is up to the private landholder to ensure they do the maintenance. One of the things we can do is to say, 'Would you like us to do that work on your behalf?' If they do, they will sign an order to do that and we will bill them for it.

That is a service we offer. There are plenty of contractors out there that do that, but it could be something simple like a tie and we might have people on the spot at the time who can do that. I can't comment, unless there is a specific example that you are referring to. There are a few complex ones of those, and they are probably that 0.1 per cent that we have to work through with the customers to understand the issues.

**Ms LOVELL** - Thank you. Just one last question: there have been some opposing views put forward by, my understanding, the solicitor-general. The original view was that the infrastructure was owned by TasNetworks, now there is an opposing view. There is a lot of confusion around this and there is a lot of concern around this, as I am sure you understand. Will you be making that advice public?

**Mr BARNETT** - Through you, Chair, the CEO can perhaps add to this, there needs to be clarity around this matter. The Government is taking this very seriously. It has been around for not just a couple of years, but for probably a decade or more. The fact is we have come to a conclusion. We are confident of that. It is based on advice that TasNetworks received and the Solicitor-General's feedback and advice. I will ask the CEO to add to that.

**Mr BALCOMBE** - That is correct. The Solicitor-General has advised the Department of Justice as part of that process. We have sought our own advice. There has been a collaborative basis about how we share that information. Early in the piece the DOJ formed a preliminary view that it did not have all the information available to it. It had probably the most recent pieces of legislation, but it had not followed the whole trail. We are now totally comfortable that we, the Government and the Department of Justice are fully aligned on this with this outcome.

**Ms LOVELL** - Minister, you might be totally comfortable, but there are others who are not comfortable. In the interest of clarity, would it not be prudent to release that advice if you are relying on that advice to say that this is your position, and this is what has led you to feel so comfortable about it?

**Mr BARNETT** - Thanks for the question. That is not normal government practice, as you would know from past governments in terms of releasing our Solicitor-General's advice. The Solicitor-General's advice has been provided to the Government. It has been made available to TasNetworks. TasNetworks has received its own advice.

The Government, in consultation with TasNetworks, has supported TasNetworks' efforts to consult with the key stakeholders. That is now underway. That has been proceeding for a number of weeks and will be ongoing for a good deal of time. It is a very important matter. There needs to be clarity around these matters. The position now is very clear from the Government's and TasNetworks' perspective. Those consultations are being undertaken in a positive and constructive way.

**CHAIR** - To follow up, probably through you, minister, to the CEO. In terms of replacing a pole on private land is all done by private contractors now. Do you have any oversight at all on their charges? I have heard of many outrageous charges being levied on a private owner to replace a pole. Or do you just leave it to the market?

**Mr BALCOMBE** - We leave it to the market and if outrageous charges are being levied, I encourage customers to shop round. I realise it is not a huge market. We have benchmarks for what pole installations will be and would be happy to share that with customers. We have to be conscious that, though the business is regulated and has scale, we do not provide distortions to the market.

**CHAIR** - We are talking about 50 000 or 60 000 poles in the ground. To whom they belong I will make no judgement. You have stated the case.

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**Mr BALCOMBE** - You expect a pole is about 50 years -

**CHAIR** - That raises another question that was brought to our attention yesterday. It is 50 years, half a century, since bushfires ravaged southern Tasmania. Pole life is around 50 years, so what sort of matters will be put in place to look at that? It could be a whole raft of replacements having to be done.

**Mr BARNETT** - It is a fair question. To clarify before passing to the CEO, there are some 46 000 poles or thereabouts. You mentioned much higher figure.

**Mr BALCOMBE** - This figure is from a point of discrete, privately owned poles so there is no confusion - 43,871 poles.

**Mr BARNETT** - The other part of the question?

**Mr BALCOMBE** - The other part of the question was in regard to the condition of the poles. You are absolutely correct, Chair. I might ask Wayne to talk about this.

We inspect our infrastructure. I do not know whether you have seen this, but often there will be a ute with lights on the top when asset inspectors are going round. They effectively do the rounds of our assets, and they try to inspect poles once every five years - that is, the poles we own. We do that as part of the service we provide to government. We check the condition and then based on that, they will then say, 'Yes, it is another five years or we need to shorten the next inspection'. They could condemn the pole or suggest the pole is also staked, where basically a steel pile is driven down alongside the pole, which helps support the pole.

You are absolutely correct, we are 50 years from the bushfires and are seeing a fairly significant forecast with the pole replacement program. I might defer to Wayne.

**Mr TUCKER** - We replace the poles based on condition, not age. Fifteen years ago we started staking poles and the average staked pole probably lasts another 15 years, so we have extended the life of those.

We have the bushfire and staking aligning now, so from this period over the next, say, five to 10 years, our pole replacements could increase by up to 50 per cent, so from about 10 000 poles a year up to 15 000 poles per year.

**CHAIR** - Describe that stake to me.

**Mr TUCKER** - The pole normally rots at ground level or just below and what we do is we put a metal stake beside that which is in the ground and the top half bolts through the solid part of the wood.

**CHAIR** - That makes sense.

**Mr TUCKER** - Reinforcement.

**Mr ARMSTRONG** - This week it was reported in the *Mercury* or the news that the Deputy Leader of the Labor Party, Michelle O'Byrne, made a statement nothing was off the cards as far as selling Transend. What is the Government's position?



**Mr BARNETT** - The Government position is very clear. We have no intention and will not be selling any government business. There has been some conjecture; it has been in the public arena that Michelle O'Byrne made it clear on behalf of the Labor Party that they considering selling TasNetworks. When she was specifically asked if Labor wants to sell TasNetworks, she replied -

Is selling TasNetworks the best way to do that? I don't know that yet. I don't think you should put anything off the table.

Clearly, that is part of Labor's plans.

**Mr FARRELL** - Point of order, Mr Chairman, this is about asking the Government what it is doing, not the Opposition. If we want to get political, we are more than willing to get political. That is not the right way to do this so I bring that to your attention.

**CHAIR** - I hear the member's point of order.

**Mr BARNETT** - I was asked a question; I am answering the question. The Government position is very clear. That of the Labor Party is not.

*Members interjecting.*

**Mr BARNETT** - Through you, Chair, I was asked by Ms Lovell on your right whether we are selling Momentum, so clearly the sale of government assets is an important issue and I have responded unequivocally that it is 'no'.

**CHAIR** - We will draw the line there, thank you.

**Mr ARMSTRONG** - It was something I wanted to know. I thought we were entitled to know what your position was.

**Mr BARNETT** - Exactly.

**Mr ARMSTRONG** - On Pay-As-You-Go power, it is reported in the *Mercury* today that people could be up for a significant cost if the meters continue because they need to be upgraded. Can you elaborate on that? Is PAYG here to stay?

**Mr BARNETT** - I am happy to answer that question. It came up yesterday in the Aurora Energy GBE hearing. Our Government's priority is the lowest electricity price possible and Pay As You Go is a very important part of that. That is the process currently underway and continues to be. We support it. The Aurora Energy response is that it is putting a business case to its board. That decision will not be finalised until early next year.

Our Government will be monitoring that very carefully and we will ensure it is at the lowest possible, if not minimal or at all, in any costs. We want to make that very clear. The low power prices is a Tasmania First energy policy that flows through to Pay As You Go, and we - and I as minister - will do everything in our power to ensure the lowest possible prices for Tasmania because the cost of living is a top priority issue.

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It is an important part - it has been in the past, it will be in the future: Pay As You Go is important. As new technology comes on, there will be more opportunities for convenience, for choice, for controlling your power and how it is used.

I am happy to elaborate further but I think that summarises the position of the Government and Aurora Energy.

**Mr ARMSTRONG** - So Pay As You Go is here to stay?

**Mr BARNETT** - Absolutely.

**Mr FARRELL** - The biosecurity issue was raised with us, and I know it is a concern for TasNetworks. The TFGA raised that, with meter readers going from farm to farm.

In the old days the meter reader could hop in the ute with the farmer and go down the paddock and read the meters down there. What is TasNetworks doing in regard to that? There is probably not a straightforward, simple solution apart from running a ute through a bath before you go to each different property.

**Mr BARNETT** - Firstly, metering is a very important part of the process for TasNetworks. It has arrangements in place working with Aurora Energy. Biosecurity is a top priority for the Government. Jeremy Rockliff has led the way and has demonstrated that through various budget initiatives to ensure that Tasmanians are kept safe. Perhaps the CEO could add to that.

**Mr BALCOMBE** - Mr Farrell, you are dead right, it is a challenge. Generally, access to most farmers' land can be challenging for our meter readers.

With regard to biosecurity, yes, we wash the vehicles between farm visits and at the end of the day we get the vehicles back to the depot where we have specialised washing facilities.

One of the opportunities that is looming is that you may have heard of the Power of Choice metering reforms. In essence, under the Power of Choice metering reforms, TasNetworks will no longer be involved in metering. Any new or replacement meter, as of last Monday when these reforms became live, will be what is called an 'advanced meter'. One of the abilities of those advanced meters is for those meters to be read remotely. Assuming you have mobile coverage, they can be read remotely. One of the options for farmers is to switch their meter to an advanced meter, and that will deal with a lot of these access issues and could remediate any biosecurity risks by remote readers.

**Mr FARRELL** - Is there a cost associated with changing over meters?

**Mr BALCOMBE** - Yes, there is. We are not privy to that information because, as part of that service it is offered by Aurora as a contestable service. We still have the legacy incumbent-regulated process. The meters that were there up until last Monday are all regulated. Anything new and replacement will fall into that contestable regime and they will be owned by Aurora. You will approach Aurora in regard to that.

**Mr GAFFNEY** - It is good that the remote smart meter is coming on board; it makes sense. A question raised yesterday with the TFGA was, 'Why don't they simply allow us to take a photo of the meter and forward it?' The case given to us yesterday was that he watched the meter, from

some of your guys, call up, read the sign where it says ring the farmer or whatever, and they drive straight past and go down to it. I am not criticising that. It sounds to me as though people in the farming fraternity have an answer to how they could help out by taking that, and that would solve the biosecurity problem and would not be an issue. They said, 'If a farmer didn't do that, obviously your meter readers would have the right to go on.' It seemed to me to be a simple compromise to that issue, even though this new process is in place.

**Mr BALCOMBE** - Thanks for the question, Mr Gaffney. The question is one of our systems and particularly of storage of photos and such. We do offer a self-read program. That means the farmer can self-read three times a year and then we come in and do a check read. It is slightly different to taking a photo. Some farmers do not avail themselves of that. There is a cap because we are still bringing our technology in - we are in catch-up mode. If you could think about how many photos we might get and the ability to store those, what happens behind that is still a very manual process. We would have a couple of people at desks, taking the data off those reads, storing the reads and loading them up into the system. It still remains a very heavily manual process.

From a systems perspective and a cost perspective, we do not think that is the best remedy. We offer this self-read service. I probably have to take it on notice how that goes with farmers. Bess, I do not know whether you have any perspective on that.

**Ms CLARK** - I believe a lot of farmers have a self-read service and we are obliged by law to do an on-site physical read. It reflects, unfortunately, that over time some people do fraudulent reads, whether deliberately or by mistake. The national framework requires a physical read and now, where there are advanced meters, that can be a substitute. Advanced meters do not require a physical read.

**Mr GAFFNEY** - That is good. The point raised yesterday - and the minister mentioned the work done on biosecurity through Jeremy Rockliff and trying to mesh them together - when the TFGA spoke to us, is that some the crops that are very sensitive and it could wipe out millions of dollars' worth. Surely, if there is a crop that is sensitive and the farmer does not want a meter reader coming on, they should be able to make some arrangements, especially at that sensitive time of the year, to contact and come up with something like you have just said, the smart reader. If that was out there, I think they would avail themselves of it.

**Mr BALCOMBE** - I agree, and all the farmer has to do is tell us not to go on the land and we would follow that.

**Mr VALENTINE** - How far away can the smart reader work? How close do you have to be?

**Mr BALCOMBE** - It's anything that has mobile coverage. If you're in a mobile zone, it will be read remotely.

**Ms CLARK** - It's different to the TasWater model in that respect.

**Ms FORREST** - On those meters, I heard, minister, that some of the smart meters for residential use aren't able to fit in the boxes so they have not been used. The meter reader has to go in and physically read the meter rather than read it from the street, which cuts down your efficiencies. Is that the case, or what is happening with those?

**Mr BARNETT** - I think you are referring to matters for Aurora Energy, but the CEO might have a view on that.

**Mr BALCOMBE** - I'm not aware of that. We have advanced meters at the moment and remotely read meters with some of our larger industrial customers on the distribution side. You would have to ask that question of Aurora. My understanding is they are only starting to install advanced meters from next week. We are in this transition phase at the moment, so I don't know the circumstances there, sorry.

**Ms FORREST** - I am sure you would know, minister, that the Retails project at Renison looks like going ahead, hopefully in the not-too-distant future. I understand some of their requirements to put in their fumer particularly will require a line upgrade and additional transformers. I wondered where this fits into the capital works program, or if it does, for TasNetworks.

**Mr BARNETT** - First, I'm certainly aware of the Retails project and its plans and progress, and I congratulate the company for its work. We remain very positive about its plans and the jobs that will be created on the west coast. Specifically, regarding infrastructure upgrades from TasNetworks' point of view, I will pass to the CEO.

**Mr BALCOMBE** - I'm not aware of those. Wayne, I don't know if you have had any information on that.

**Mr TUCKER** - We have certainly done some work in understanding what it would mean for operations to recommence, but I'm not aware of the detail or what the actual outcomes of that work are.

**Ms FORREST** - I encourage you to get in touch with them because it could be a limiting factor to when they start.

I understand TasNetworks is basically at the mercy of the regulator in some respects, who assesses what its assets are worth and what TasNetworks can charge. If TasNetworks spends x number of dollars in improving an asset, as I understand it, it won't necessarily boost the regulated asset base. I just need to understand if that is correct. If that is the case, does this make the decision whether to spend money on an asset even harder? In that case, how do you decide? There is not much point having assets in really schmiko conditions if the asset doesn't count much in the regulated asset base.

**Mr BARNETT** - TasNetworks is responsible for the make-up in the order of 60 per cent of the electricity prices that residential and small business customers pay. They are a key ingredient for success and part of our Tasmania First energy policy to keep prices lower and secure supply. They have had a very positive year, but perhaps the CEO could add to that.

**Mr BALCOMBE** - As our chair said, our primary focus is on safety. If there is a safety issue, we will ensure that asset is maintained, upgraded or replaced. The other element is that we have done a lot of customer engagement. That customer engagement tells us that, in general, customers are happy with the current level of reliability. If we are considering upgrades to our assets that will improve levels of reliability where it's not required, we wouldn't do it, so safety first, reliability second.

Some parts of the network have been less reliable than probably what we see as the benchmark for our customers. We have done some work to improve reliability there. We started with a program when we first kicked off with our seven worst performing feeders. Some of the work there was quite simple - we replaced bits of conductor. We also looked at vegetation clearances and things like that. Probably the last thing we'd do is look to upgrade those areas but in general, particularly where we are below our regulated performance standards, we'll look to lift that.

That is the process we go through. I will ask Bess to talk about the regulatory process and how when we spend money on assets that feed into the regulated asset price and then comes back to prices.

**Ms FORREST** - Before we go to that, it would be helpful to hear if one of your seven worst-performing feeders is one that feeds Rosebery and Zeehan. Is that one of them?

**Mr BALCOMBE** - I don't have that to hand.

**Mr TUCKER** - It is one of the feeders we find challenging.

**Ms FORREST** - Which reinforces my point of getting in touch with Renison.

**Mr BARNETT** - We have that note.

**Ms CLARK** - We are a very asset-intensive business. We like to think we are not at the mercy of the regulator because we have a very constructive relationship. We have worked hard to work with our customer base and then demonstrate to the regulator that the plans we put forward provide good outcomes for Tasmanians. We realise that we need a safe and reliable network, and that we have to deliver energy securely and remain affordable. We balance all that in putting forward our plans, which we will put to the regulator for the next time next year. We are very pleased because during the past year we had a revenue decision from the regulator that it fully accepted all our proposed capital plans on the basis they made sense and had been tested broadly with our customer base. When we put forward well-thought through plans, the regulator will do its full review of those plans. For our last two revenue-setting exercises, the regulator has accepted the capital proposals we have put forward. An incentive scheme operates across both our operating capital and service outcomes. We found it was prudent to overspend any capital. That is allowed in your asset base but with a penalty applied. It is saying, 'Be very careful before you overspend'. You're not fully penalised for overspending, but there is some incentive to think very carefully before you do.

**Ms FORREST** - The MIs haven't come to us this time as key stakeholders, but I do commend TasNetworks on the work it has done with major industry because the network charges was a big issue for them. Page 48 of your financial statements shows revenue fell in 2017. It is predicted to fall more - page 15. What are the expected dividends and equity withdrawals? How are you seeking to manage these falling revenues? It is a matter the Auditor-General also raised as an area of concern. He suggested the concern was about how TasNetworks is responding to the drop in revenue and the decreasing profitability.

**Mr BARNETT** - Thank you for the question. Before I pass to the CEO or the chair, I want to confirm the profit was \$93.9 million, just above budget by \$1.2 million, total return to

government of \$176.2 million. TasNetworks focused on cost efficiency and it has delivered that result. There has been a significant reduction in network costs as of 1 July 2017. There was a 20 per cent reduction in networks costs that helped put downward pressure on price increases and counter the price impacts of the volatile National Electricity Market. I want to commend TasNetworks for its efforts, particularly over that 12-month period. It is consistent with the Tasmania First energy policy.

**Mr BALCOMBE** - I will comment on the revenue drop and then I will ask Ross to talk about our projections.

As a regulated business we have to apply to the regulator every five years for our revenues. As the minister has quite correctly pointed out, there was a 20 per cent reduction in the distribution component and network prices that became effective on 1 July 2017. That harks back to the revenue proposal we lodged for a two-year period for the years ended June 2017, June 2018 and June 2019. It is a two-year proposal instead of a five-year proposal. We have done that to align our transmission and distribution revenue proposals. So from 2019-24 both our transmission and distribution networks will be aligned.

That 20 per cent reduction translates to a \$65-million reduction in our revenues. Arguably that is a very big hit to our revenues. The outcome is that we are delivering very low prices to our customers from a point of view of trend. There have been a number of contributors to that. We have been able to deliver efficiencies in our business, take costs out and revise our capital program. A large contributor is the prevailing interest markets. Interest rates have declined from historic levels four or five years ago. Our weighted average cost to capital, which is the rate of return we get on our regulated asset base has fallen. That is a big driver of that price reduction. As a business we have to take into account that \$65-million reduction in our revenues to ensure we have sufficient funds available to invest in our assets and provide what we call a regulated rate of return to our shareholder. Our returns have to reflect the regulated returns that we are allowed by the regulator. We are quite comfortable that our projections reflect that.

There is some volatility to it but our business is somewhat at the behest of the financial markets and that flows through to customer prices. We are in a very sweet spot at the moment.

**Dr NORTON** - And it flows through to the return the owner gets on those assets. The owner is getting a lower return.

**Ms FORREST** - That was the other part of my question.

**Mr BURRIDGE** - I think Lance has covered that pretty well. Owning a business like this is like having a bond investment because it is based on your regulated asset base, in simple terms, multiplied by your weighted average cost to capital. In the current two-year determination on the distribution side, it fell from 8.28 to 6.02, well over 2 per cent. That is where the \$65 million comes from. It is that 2 per cent multiplied by the distribution RAB and that takes our revenue down. If you tax-effect that, it is going to take our profit down by about two-thirds of that, so it is around about \$40 million. That will then flow through to tax equivalents because tax is tax based on your profit and the profit is lower so the dividend payout will be lower as well.

**Ms FORREST** - I accept all that. I know the reasons for it and it has all been explained. Is there any concern this will impact on your rating for borrowings? I understand the reasons for the drop-away in the revenue and the profitability and the impact that will have on income taxed

equivalents and, potentially, dividend payments. Is there any concern about the impact on the rating of the borrowing in terms of how you are seen by rating agencies or the level of gearing you will hold, even though TasNetworks holds a high level of debt and is heavily geared?

**Mr BALCOMBE** - One of the things we monitor very closely is our rating. The regulator has a model with a target level of gearing, which is 60 per cent as part of your regulated asset base. Our level of gearing is marginally ahead of that. It is something that we monitor closely. We also do that in concert with TASCORP as our only lender. They have covenant around that level of gearing. That sets a borrowing cap and we are comfortably within those at the moment. One of the things we need to do is look at our forward projections and work through those with TASCORP. From a credit rating perspective we are quite comfortably sitting at a consistent level, which, Ross, is?

**Mr BURRIDGE** - We work closely with TASCORP. We are investment grade, which is A and above. They are comfortable with the position we are in at the moment.

**Ms FORREST** - No letter of comfort required for TasNetworks then?

**Mr BURRIDGE** - No letter of comfort required.

**Dr NORTON** - We are their largest customer. We have a lot of interactions with them.

**Mr BURRIDGE** - We work very closely with Tascorp.

**Mr VALENTINE** - I was interested in the provision of non-regulated telecommunication services. Can you expand a bit on exactly what this is handling? You have \$18 million of revenue coming in. It is slightly up, which is good.

**Mr BALCOMBE** - What page are you on?

**Mr VALENTINE** - Page 53 of your report. Some time ago you actually - I am looking at a set of papers provided. A1 revenue is the table. Thank you.

**Mr BALCOMBE** - TasNetworks has a telecommunications network, as you probably gleaned from the fact we make revenue from it. That does two things - it serves the regulated business, in essence, we use that so all our assets and switchings around the state, particularly on the transmission network -

**Mr VALENTINE** - This is in-house communication?

**Mr BALCOMBE** - Yes. There is a regulated component. From our own regulated assets - then alongside Hydro Tasmania uses that as the basis of communication for operating its power stations. Alongside that, also when they have IT and such like going into their power stations, they are using our digital microwave services. That is part of that. We also have access to some fibre on our transmission network.

**Mr VALENTINE** - A significant amount of fibre, 16 075 kilometres-worth.

## UNCORRECTED PROOF ISSUE

**Mr BALCOMBE** - That is right. Alongside also access to fibre laid with the Tas Gas pipeline. We offer commercial telecommunication services through that, what is called 'backhaul' services. We offer customers access. That is probably the lion's share.

**Mr VALENTINE** - Some time ago you were actually offering services across the wires. I was interested to know whether that is still continuing.

**Dr NORTON** - That goes back to Aurora days. Aurora spent some money and did some experimentation on using its distribution infrastructure for telecommunications. That project was terminated well before TasNetworks was established.

**Mr VALENTINE** - It was not viable or not enough customers?

**Dr NORTON** - There were technical issues, but was not a viable alternative.

**Mr VALENTINE** - The revenue here then is simply from your other entities using the service.

**Mr BALCOMBE** - Customers.

**Mr VALENTINE** - Customers using the service. Thank you.

**Mr ARMSTRONG** - I noticed a customer complaints reduction of 12 per cent. Can you tell me what your main complaints are? Is it outage of power or something else?

**Mr BARNETT** - That is a very fair question. This is something that comes up pretty regularly, but is best if the CEO responds and outlines the types of complaints.

**Mr BALCOMBE** - The largest component of complaints is in regard to meter reading. What drives the largest component of meter reading complaints is access issues, particularly with home owners who have dogs. We have a very clear policy where we cannot see a dog on a property is constrained, or there is a note on the gate from the owner of the property saying the dog is restrained, our people are instructed not to access properties.

We have had one dog bite or injury this year. They are becoming rarer. It creates a lot of issues from a point of view of consultation. It is one of the things we are trying to improve. Ideally we will get to a system where we give customers a text a day in advance of their meter being read as a reminder to constrain the dog. Ultimately there is also an opportunity for customers to change out their meters to these advance meters, so we remove the need. By and large, it is the biggest complaint. To put this into context, our meter readers read somewhere between 600 and 900 meters a day so they have a very short decision time frame. When they see a property, these properties are logged on their data caps about where there is a dog. If they cannot see the dog is restrained, they will not enter.

That creates poor customer outcomes but, frankly, I make no apology. The safety of our people is paramount. Aurora, before it introduced this policy, was suffering about 12 dog bites a year and that was not sustainable. We have had one in the last 12 months, so is something we can manage and continue to work with our customers on self-read programs and things that present an opportunity to deal with this. The next one is in regard to this new metering opportunity.



## UNCORRECTED PROOF ISSUE

Probably the other issue is with regard to connections and our timeliness, connections and engagement.

**Ms FORREST** - On the issue of outsourcing meter readers, is this happening and why has that decision been taken if it is?

**Mr BARNETT** - I can confirm there are new national metering rules that are resulting in a steady increase in the number of advanced meters. You have heard about the benefits of the advanced meters of having more control of what is going on at your residence or in your business. There are a lot of up sides in that sense in terms of residential, small and business customers and, as the CEO has indicated, it is commencing this past week. Those rules require advanced meters to be used in new installations when an existing meter needs replacement or when a customer chooses a retail service that requires an advanced meter. Clearly this is a matter, primarily, in which Aurora Energy and TasNetworks have an important role to play.

We have talked about the access issues.

**Ms FORREST** - Through you, Mr Chair, the CEO was talking about the reading of meters, the safety of his staff and avoiding dog bites. My question is: is meter reading being outsourced? A pretty simple question.

**Mr BARNETT** - That is a matter for Aurora Energy. We had that hearing yesterday with the House of Assembly. There has been a transition taking place in this past week. The CEO might wish to add to that.

**Mr BALCOMBE** - To be clear, we are in this transitional phase so what is occurring is that we are still responsible for reading the existing regulated metering fleet. Under the new arrangements, we are not responsible for installing meters any more.

At this stage, we continue to add the responsibility for reading meters. One of the things that is going to become complex is that as this transition goes further and further, our meter reading efficiency is going to be less. We could get to the stage where we are reading every second meter in the street rather than every meter as at the moment. Today there is no contemplation that meter reading is going to be outsourced.

**Dr NORTON** - This is our meter reading.

**Mr BALCOMBE** - This is our meter reading because we still have responsibility to read those meters.

**Ms FORREST** - Because you own the meters?

**Mr BALCOMBE** - We do.

**Dr NORTON** - We will continue to read our meters, but our fleet of meters will diminish over time.

**Ms FORREST** - So you intend to have no meter reading over a period of time or will there still be some you will be doing?

## UNCORRECTED PROOF ISSUE

**Mr BALCOMBE** - They will be phased out effectively; it is probably 10 or 15 years, unless it is determined to accelerate it from a point of view of improved customer outcomes which could be efficiency and price.

At this stage, we are going to be phasing out. As these meters are replaced, we will have fewer meters to read in our regulated fleet and they will fall under the control of Aurora.

**Ms FORREST** - Thank you; it is good to have that explanation on the record so people can understand. That is why the questions are asked.

**Ms LOVELL** - My questions are in regard to the software update being undertaken. Last year during this process it was advised this would be completed by October this year. Is that the case? Has that been completed?

**Mr BARNETT** - Before I pass to the CEO to respond more specifically, in terms of promoting Tasmania First and the use of Tasmanian suppliers, that is going very well. It was in the order of \$128 million, an increase of over 40 per cent from the 2015-16 year. I am very pleased with that and I want to commend TasNetworks on that.

**Mr BALCOMBE** - Thanks for the question. I am happy to be corrected, but I am not sure we have ever said the project would be completed by October this year. The current planning is that project will go live on 5 February. The first part of that project went live in February of this year. It has been delivered in two modules.

To be clear about what this project is - it is more than an IT project. This is a business transformation project. We inherited IT systems that were end-of-life. It was right of those businesses not to invest because they knew the merger was looming, so they chose not to invest in IT in particular.

One of the things we have focused on is how to improve process. We did not want to change process without understanding the systems that will underpin that. During 2015 we went to market and sought what was called an 'enterprise resource planning system'. We set out a list of requirements. We knew it was more than the systems because this will introduce a new way of working. There is going to be a lot of change. This creates opportunities to automate things we have previously done on manual systems.

The board approved the Agilis business case in October 2015. That project to date has gone very well. Ross is the sponsor and I might defer to him. The project introduces a lot of change for our people, particularly this second drop because it is on the asset management side. It is going to change and increase some responsibilities. It will change the responsibility of our field team because they will have mobility. They will be walking around with their tough books. They will get their schedules off their tough books and they will be registering the completion of jobs. I will defer to Ross about this second stage.

**Ms LOVELL** - If I could add to that question in case you would like to elaborate further. It was during the GBE process with the lower House last year. It is in the *Hansard* and it was Mr Balcombe who said, 'The project will be completed by about October next year.'

**Mr BALCOMBE** - It is my faux pas, I apologise.

## UNCORRECTED PROOF ISSUE

**Ms LOVELL** - Sorry. Further to the question and related to the efficiencies you have spoken about, what has the impact been on jobs so far and what is the projected impact on jobs, specifically in terms of numbers around FTEs? How many jobs are you expecting to lose as a result of these upgrades and the efficiencies that will result?

**Mr BURRIDGE** - Let us talk about the project first. As Lance said, we went live earlier this year with release 1, which is the financial and human resource systems. That was under-budget and on time. Our benefits realisation is ahead of schedule on release 1. This is not all about job savings; it is about better management of our resources, better procurement of items, using our purchasing power to get lower unit prices for procurement and better ways of managing the business.

Release 2 was initially scheduled to go live this year. We took a decision some months ago that going live with a large system just before Christmas was not the best thing to do because this part of the system has the biggest impact on our people. All our field workers will be impacted by having electronic time and work sheets et cetera. We have moved that to 5 February.

It is a pretty intense period at the moment because we are in what they call 'user acceptance testing'. We have more than 100 people working on that at the moment. We are making every effort to have that done before Christmas so we can meet the 5 February deadline.

We are under-budget on this release as well -

**Ms FORREST** - Is that much under-budget? I mean, it is a big budget.

**Mr BURRIDGE** - It is \$58.2 million. Off the top of my head, it's about \$1.8 million under forecast at the moment.

**Ms LOVELL** - Are you projecting that you will still be under- or on-budget with a 5 February release?

**Mr BURRIDGE** - Correct, yes. When we extended our timeline, it did not impact on our budget. We have worked with that contractor on that. The benefits realisation - your question goes to this - we are taking to the board early in the new year. It is well on track. It is about \$76 million net present value of those benefits. In release 1 we had a swap-out of skills. We had two people using the old system, one was redeployed in the business and the other one left the business. Then we had about three or four jobs come on to manage that new system release.

Benefit is not just about redundancies; it is about better processes. I am pretty safe in saying there are no immediate redundancies directly linked to this project.

**Mr BALCOMBE** - I think any redundancies would be at the margin. Jobs will change. This is what Ross says, the jobs of today will be different from the jobs under the new arrangements. There is probably going to be churn. It is ultimately whether people have the appropriate skills to step from the old to the new.

**Mr BURRIDGE** - When we go live 5 February, it's important to note that this will have a major impact on our field crews. We will be rolling it out in a very measured process. If we hit all our 600 people in the field on day one, that would be unmanageable. We will be rolling it out and we will have a little transition period.

**Dr NORTON** - It's important to say that the date is not hard and fast. If we have bushfires or some intense activity with our field crews at that time, we might have to look at marginally delaying it.

**Ms LOVELL** - That's sensible.

**Dr NORTON** - We will make sure it doesn't impact negatively on our crews at a time when they might be working with bushfires.

**Mr BURRIDGE** - We will not compromise quality, because a compromise in quality will create a bigger problem for us in the future. We will make sure it's right before we go live.

**Ms FORREST** - A really quick one that will only take one minute to answer. Minister, what are the overnight borrowings of \$6.5 million on page 70? What do they relate to?

**Mr BARNETT** - That might take a little bit more than one minute, but let's have a look at page 70, look at the borrowings. I will check with our CEO or CFO.

**Mr BURRIDGE** - It is really just managing our working capital. We borrow from TasCorp in line with the regulator's guidelines of equal amounts in one to 10 years. We place that in large lumps with TasCorp. There are times day-to-day when we have additional cash to invest -

**Ms FORREST** - A big bill that day, 5 June?

**Mr BURRIDGE** - On 5 June, we would be trying to build that to a sizeable amount to place across the board. Because \$6 million by 10, \$600 000 per 10 year, would not be worth placing in that regard, so we borrow temporarily until we have enough to spread across in a meaningful manner.

**CHAIR** - Minister and members, I think it is an appropriate time to pull stumps, it being 1 o'clock. We will all take a deep breath and have some lunch. We will adjourn until 1400.

**Mr BARNETT** - Just to clarify our timing this afternoon.

**CHAIR** - Yes, we go from 2 p.m. to 3 p.m. and then you can relax and we will have another minister in.

**The committee suspended from 1 p.m. to 2 p.m.**

**CHAIR** - We will resume, minister.

**Mr VALENTINE** - I have a question and I am not sure if it is applicable, whether it should have been Hydro or Aurora. I was interested in the impact of the photovoltaic project, where feed-in tariffs were provided at 28 cents a kilowatt hour. People were able to invest in PV rooftop solar from a period of five years. Do you have in part in that, apart from the fact you transport the electricity that comes off them? Does it impact on your financials in any way?

**Mr BARNETT** - Yes, it does. There is quite a bit of detail that could be shared on the feed-in tariff. The Office of the Tasmanian Economic Regulator undertook some work on this in the past 12 months. There has been quite a bit of change over the years.

**Mr BALCOMBE** - There are a couple of elements. There is a grandfathered feed-in tariff that currently runs through to December 2018.

**Mr VALENTINE** - I thought it was August.

**Mr BALCOMBE** - December 2018. That is at around 28 cents. It is what the regulator calls the 'fair and reasonable feed-in tariff', which for the 2017-18 year is 8.929 cents per kilowatt hour.

**Mr VALENTINE** - With respect to that first one, the 28 cents and the period of time, what sort of impact is that having on your financials?

**Mr BALCOMBE** - The retailers pay that but we reimburse the retailers for the gap between the fair and reasonable and the grandfathered feed-in tariff, which is about \$11.5 million per annum. We do not recover that from customers. Other jurisdictions currently, particularly Queensland, build that into their cost base and recover it back across their customers.

**Mr VALENTINE** - Do you pass that back to Hydro?

**Mr BALCOMBE** - We do not. We wear that as a business, and that comes through as a lower return out of our business. Queensland is transitioning to our model. Given its solar penetration, it is a much more substantial impact on their business. The other element is for those customers currently on that feed-in tariff, when they get to the 28-cent one and December next year, they face a bit of a cliff edge from no longer receiving it.

We are working with those solar customers. We have had some engagement about how we can put them onto a tariff arrangement that allows smooth transition and not such a large cost impact. I might get Bess to talk about some of the work we are doing.

**Ms CLARK** - We have been working with retailers in Tasmania and Aurora, which has all the small customers, and also with the Tasmanian Economic Regulator, which sets the standing tariff for small customers. Together we now offer a network tariff for the time-of-use network tariff that offers a discount for off-peak, which all your energy can go through. If you are a solar customer, it gives you signals when it is or not as expensive to use the network.

For Tasmania, we obviously have peak demand in winter and short days. In Tasmania, solar energy does not contribute to offset our peak, because we still need to move all the energy largely from big generators. As our energy market evolves, we are getting one battery application a week at the moment from customers connecting batteries. Over time, more and more customers are expected to consider batteries. Some of those customers who are on the grandfathered feed-in tariff are indicating they are considering whether they would install a battery when the feed-in tariff ends.

**Mr VALENTINE** - You are retailing batteries?

**Ms CLARK** - No, we are not retailing. The underlying cost driver for our network is the assets we have to provide to serve at peak demand, and the underlying connection to connect a

customer to our network. We are providing price signals. A time-of-use tariff is providing signals to these customers. Quite a lot of customers on the feed-in tariff are indicating they are considering batteries to store energy. We are doing a Bruny Island battery trial to test that. This is providing some real benefits to the network.

We also are looking at working with Aurora and the Tasmanian regulator to introduce a 'demand tariff', which is about how much load you put on the network at any point in time as opposed to how customers traditionally pay for how much energy they use over three months.

We are looking at demand tariffs and proposing a heavily discounted off-peak demand tariff for these customers. We have a pricing reform working group, which has a cross section of customers and stakeholder peak bodies to engage with them on pricing reform. We can consider ways we can move in this quite changing energy market to provide good pricing rules and, in the long run, support the lowest network costs and lowest delivered energy costs for Tasmanians.

**Mr VALENTINE** - As an entity do you handle the software component of the feed-ins and the like, or is it up to third parties to provide that to the individual householder?

**Ms CLARK** - Basically the data comes through the meter which captures what is coming into a premises; if there is a solar export, it measures that too.

**Mr VALENTINE** - It is going out?

**Ms CLARK** - With the trial at Bruny, we are working with a consortium that includes a partner called Reposit Power. They have a software interface that works with the customer who has a battery and solar combination to say, 'Should I be charging my battery? Should I be just using my solar, or should I be exporting back into the network?' It is all based on price signals as to what solution they could provide. Then, particularly on weekends in summer and holiday periods, when we have a higher demand on Bruny Island and limited network capacity, we send a signal to the customers saying, 'If you provide your battery power, you are a generator to the network, and we will pay you a premium because that is valuable to us.'

From that trial we are seeing we do not have to run the diesel generator we usually have to use because the combination of the price signals and this smart software is basically optimising energy use.

**Mr VALENTINE** - Are some of those battery providers able to work with their individual customers in a group, and are you, in those cases, simply charging a certain portion for the use of your network? How does that work?

**Ms CLARK** - All we ever charge is for the use of our network. That is our role in all this. In that trial we are in effect providing the customer with what is called a 'network support charge'.

**Mr VALENTINE** - What's that roughly?

**Ms CLARK** - I can't recall that; I will have to take that question on notice.

**Mr VALENTINE** - That's all right; I would just be interested to know.

**Ms CLARK** - We have three universities, including the University of Tasmania, involved in the trial, and part of the trial is to understand customer responsiveness to different price signals to work out what makes this model work. That is part of our research.

**Mr VALENTINE** - Thanks for that.

**Ms FORREST** - It makes you aware of your energy use when your electrician rings and says, 'What have you just turned on?'

**CHAIR** - Minister, I have a question came about a breach whereby you were fined \$60 000 by the AER. I will read a little bit of the background, '... has breached its obligations to customers,' - that is, TasNetworks - 'requiring assistance from life support equipment.' It goes on about TasNetworks saying the breaches were regrettable and working to ensure they were minimised in the future. The question is: what processes have been put in place to try to mitigate that?

**Mr BARNETT** - A fair question, an important matter. It has been raised in the public arena and TasNetworks put out a statement on that day. I will ask the CEO to respond.

**Mr BALCOMBE** - For a bit of context, the National Energy Customer Framework is a set of rules we are required to comply with. Under those rules we are required to give notice of outage. When we have a planned outage, we are required to give customers notice. In regard to life support customers, a life support customer is anyone deemed by a medical professional to require a constant supply of electricity at their premises. We are required to give them four clear business days' notice before we have an outage.

Chair, you are correct, we have been fined for three breaches of that life support obligation where we didn't provide adequate notice of outage. Probably the biggest driver of why those outages are occurring is that we have inaccurate information within our geographic information system. What is represented in our GIS mapping doesn't reflect the true connections of what is occurring on the network.

What we've been doing is to introduce some controls over and above that. That is a function of history, and upgrading our systems is something we need to do as these deficiencies are identified. Some of these connections go back 50 or 60 years, so some of the work we do is to go out and make more effort to scope the work. One of the pieces of work we've done is look at whether to consider carting more life support customers in the area just in case we inadvertently turn them off. We don't particularly like that approach because we create the expectation that customers might be turned off when they aren't.

What we have to do is improve our processes and over that introduce more checks and balances. Part of what we do is that our people go out into the field. One of these breaches that was referred to was where one of the guys actually lifted up a turret. You might recall you see the little turrets on the ground where we have our underground connections. He lifted the turret, checked the label and made sure he was pulling the right fuse but in the end, the label was incorrect. Despite the best intentions, we can inadvertently create these issues. That labelling was fixed.

There are some legacy issues. We are not trying to blame previous management about this. We need to do work to make our data more accurate. Alongside that, we have done some work

ourselves. We recently has GHD, the engineers, come in and assess our processes. That report is going to our audit committee tomorrow week with recommendations.

I suggest this is a journey, but we are working really hard to resolve it. We realise it is not good enough. The countervailing perspective on this is that life support customers do not get notice of an unplanned outage. If there is an outage caused by storms and things like that, they do not get that notice. We suggest to those where there are critical aspects that they take their own action to ensure they have a continuous level of supply because we are unable to guarantee that 100 per cent of the time. We are working on improving the processes and we are working very closely with the Australian Energy Regulator in regard to this.

Unfortunately, we continue to incur outages - we had one a couple of weeks ago. Some of these things are manual error and we have to make sure we work out that manual error. There are some on a systemic basis that crop up from time to time.

The other element we are working on is that our hurdles with regard to life support are a little bit higher in Tasmania as opposed to mainland states. We are working with State Growth and the minister's office to ensure we have the appropriate derogation so we are working on a level playing field regarding these. These life support customers are very important. We are not trying to underplay the severity of this matter, but we want to make sure we have a level playing field compared to the rest of the country in that regard. We are doing some work there.

**Mr BARNETT** - Very briefly, I confirm with regard to those seven breaches that there were no health-related incidents. We are talking about life support, so it is important I put that on the record.

**Mr BALCOMBE** - Thanks, minister, that was a very good point.

**Dr NORTON** - The majority of customers who have life support requirements have sleep apnoea devices and, as Lance pointed out, for any customer who has a need for continuous electrical supply, they need to have an independent electrical supply because we cannot guarantee supply if there is an unplanned outage. It sounds like it is life threatening when we have a breach and I am not diminishing the fact we have to go by the rules, but I want to stress it is not something causing health issues.

**CHAIR** - Thank you. On page 36, the annual report talks about consultancies. Four out of the five consultants who were employed, over \$50 000, were from interstate. Is there not the talent pool there or was what you wanted to achieve not available within the state from consultants working here?

**Mr BARNETT** - I touched on this briefly before. As a positive for the 2016-17 year in promoting Tasmania and buying local and using Tasmanian suppliers, work provided by Tasmanian suppliers was in the order of 128 million, an increase of over 40 per cent from the previous year. That is very encouraging. Perhaps the CEO could add to that and address the specifics.

**Mr BALCOMBE** - Your point is valid, Chair. Where we can, we will always prefer to get these consultancy services from our local providers. For instance, Deloitte has a local office and I would be confident there would be some local people involved in that, albeit the engagement was signed up with the office out of Melbourne. We have other internal consultancy services.



## UNCORRECTED PROOF ISSUE

Our internal audit is done through KPMG. They are a national firm but we use their local office. Generally it is where we can't obtain the skills locally that we will source elsewhere. We certainly try to prioritise Tasmanian businesses.

**CHAIR** - I don't recall whether the quantum of those consultancies was noted in the annual report.

**Mr BALCOMBE** - These are.

**CHAIR** - They were?

**Mr BALCOMBE** - Yes, these are. Page 36.

**CHAIR** - Thank you.

**Ms FORREST** - There is something I want to pick up before we go on to another area, and for which we didn't get an answer. We were talking about the predicted falling revenues. Minister, I asked what were the expected impacts on dividends and equity withdrawals. What is the financial impact of that? How much less do you think the Government will get in income tax equivalents guaranteed for those dividends?

**Mr BARNETT** - Yes, the CEO and Ross, the CFO, addressed that.

**Ms FORREST** - Not in dollar terms.

**Mr BARNETT** - The CEO or the chair might want to add to that answer.

**Dr NORTON** - While they are getting the figure, I can indicate we are not aware of any planned equity withdrawals.

**Ms FORREST** - All the ones like Hydro are finished?

**Dr NORTON** - Yes, the Hydro one finished last year and there are none planned for this current financial year.

**Mr BALCOMBE** - Pardon me, I am just looking up the statement of corporate intent in our annual report. If we go to page 40 in the annual report, that is probably the best indication.

That shows the target we have at \$164 million for the 2016-17 year. We have to be conscious that these might be the accounting bases, not the cash bases too. So we might declare the dividend as part of the June financial statements but pay it in the current financial year, so we have a dividend from last year's profit that we will be paying off in December.

That shows that decline but, alongside that, we also meet the target of ensuring we met our regulated rate of return as a business.

**Ms FORREST** - A question for the minister. As I understand it, the dividend policy is still 90 per cent.

**Mr BARNETT** - Yes.

**Ms FORREST** - In view of the declining profits of TasNetworks, and it being a very capital intensive business, admittedly regulated, is any consideration being given to reviewing that dividend policy?

**Mr BARNETT** - Only in the context of the Tasmania First energy policy, which is to keep power prices as low as possible and targeting the lowest in Australia by 2022. That is for customers who are residential and small and larger businesses.

I think the statement of corporate intent is on the record and the chair might want to -

**Ms FORREST** - No, I am asking you about the Government's policy position on the dividend policy. It has nothing to do with TasNetworks. It is a government policy decision - it is nothing to do with the Tasmania First energy plan. What is the policy position regarding dividend policy with TasNetworks?

**Mr BARNETT** - The policy dividend policy is consistent with the Tasmania First energy policy. When you say it has nothing to do with that, that is our policy.

**Ms FORREST** - It is at 90 per cent now. Is there any indication you will review that in view of the falling revenues that TasNetworks, a capital-intensive business, has experienced? It gives them less of their own money to invest in the business.

**Mr BARNETT** - That would be relevant to any future budget and any future decisions of the Government. We are addressing the 2016-17 annual report. I can answer questions on that. I am very pleased with the strength of the report before us.

With respect to any changes, that will be a matter for the Government down the track.

**Ms FORREST** - There is no plan to even review the dividend policy at this stage?

**Mr BARNETT** - If it is consistent with the Tasmania First energy policy for the lowest prices by 2022, we will maintain that policy. We are determined to meet those targets and we are quite confident we can.

**Ms FORREST** - Which targets are you referring to?

**Mr BARNETT** - There are two targets. The first target is to have the lowest electricity prices in Australia by 2022. The second target is to have 100 per cent renewable energy in terms of self-reliance from Tasmania on island by 2022.

At the moment we are sitting at 90 per cent. As a result of our policies and what we believe will be very positive feedback to the second interconnector decision and a range of other government policies, we will get to 100 per cent by 2022. I have already mentioned the Wild Cattle Hill wind farm, which is bringing on 144 megawatts, and Granville Harbour, which will bring on 112 megawatts, not to mention the \$300 million development for the first and \$280 million for the latter and the jobs that flow from that. I have mentioned the Robins Island and Jims Plains wind farms and \$1.6-billion development.

## UNCORRECTED PROOF ISSUE

**Ms FORREST** - Through you, Chair, we have heard this a number of times. You have just outlined the very capital intensive nature of this business and the intention of getting to 100 per cent renewables. Is the dividend policy at 90 per cent making it more challenging for TasNetworks to invest in that to make sure we can get to that target? Is there any intention to review that policy in view of the pressures it can put on?

**Mr BARNETT** - I have already answered that and I will add -

**Ms FORREST** - We have not heard you say 'Yes' or 'No' once.

**Mr BARNETT** - to the answer -

**Mr ARMSTRONG** - Point of order, Chair. Are we just playing politics here or something?

**Ms FORREST** - No, I am asking a serious question about a policy position of the Government.

**CHAIR** - I know where the honourable member is coming from. I can see the question she is asking. Could the minister nail that down to save all the to-ing and fro-ing?

**Mr BARNETT** - I am happy to respond but I have already answered it. I cannot predict what a future government might do. You have seen the success we have had in the last 12 months, in this financial year. You have seen the policy parameters we have in place. We are determined to reach those policy parameters. I have referred to a \$1.6-billion wind farm development in the member's electorate that she has not asked any questions about today. That is incredible. Putting that to one side, the position is very clear.

**Ms FORREST** - I have asked about other things in my electorate.

Chair, the revenues are falling over the next two to three years. It is in the annual report, the very good annual report you refer to. My question is valid and relevant. Is any consideration being given to review the dividend policy from 90 per cent in view of the need to meet your Tasmania First energy policy targets, which in the current environment provide a pretty tough ask for TasNetworks?

**Mr BARNETT** - The Government has an ongoing role in terms of its decision-making. It monitors the situation on a regular basis, works very closely with all the energy businesses, and will continue to do so, and make decisions beneficial to the Tasmanian people consistent with our Tasmania First energy policy.

**Ms FORREST** - Chair, can you ask the minister to answer the question? Is there likely to be a review of the dividend policy?

**CHAIR** - You have asked a question.

**Ms FORREST** - I know, but he has not answered it.

**CHAIR** - I think the minister -

**Ms FORREST** - He is not going to answer it. Okay, let us move on to the next thing.

**Mr BARNETT** - The member obviously may not be satisfied with the answer. I have answered the question probably three or four times; I am happy to answer it again, but it is clearly an attempt to waste the committee's time if she asks it again.

**Ms FORREST** - I do not think I am wasting the committee's time.

**CHAIR** - I think that the honourable member's question is fair, but you have answered it in an oblique way. You have mentioned that it will be an ongoing matter that you will consider.

**Ms FORREST** - He has not even said that, Chair. That is not what he said.

**CHAIR** - We are at an impasse.

**Ms FORREST** - I will move on to another area if he is not going to answer that.

**Mr BARNETT** - Chair, I do not wish to be verballed and told what I have said or have not said. I have made it perfectly clear. This is a matter the Government maintains and supports and continues to review from time to time consistent with the Tasmania First energy policy.

**Ms FORREST** - Chair, TasNetworks and Aurora before it handed over to TasNetworks has spent a lot of money on IT. When I looked over the last few financial years from 2015-16 when Aurora's expenditure was taken into TasNetworks, there has been software spending of \$373 million - \$156 million by Aurora, taken over by TasNetworks and a further \$74 million over the last three years by TasNetworks.

It is a lot of money being spent on software. By anyone's estimation that is the case. I understand some of this is the Agilis project. I am interested in why so much is being spent on IT, particularly software.

**Mr BARNETT** - The question relates to important matters that keep the business up to date, twenty-first century, cutting edge. We have had quite a discussion about this prior to the lunch break, but I will ask the CEO to add to the answer we provided then.

**Mr BALCOMBE** - We are a very IT-heavy business. We are relying on information and operational technology. Operation technology is the assets that run the network with a SCADA system. We have our own business systems, Agilis Investment. We have the interface between ourselves, the retailer and the market operator from a perspective of metering. Members might recall there were some expenditures undertaken by Aurora in preparation for full retail contestability. That expenditure was approximately \$35 million on those market systems. That gave us as a business the opportunity to swap customers between retailers. Unfortunately, that did not manifest itself because full retail contestability has not emerged, albeit with the small business customer where ERM and Aurora are competing. We continue to do that on the back of these Power of Choice metering reforms and have invested close to \$15 million to upgrade our market systems. We have to keep updating these systems. Our forward projections indicate those market systems will reach end of life at around 2022 and will need replacement. We have that built within our forward projects going to the AER with our revenue proposal early next year. We become more reliant on IT systems and some of these systems are old and need replacement. The SCADA system is mission-critical. We have to ensure we continue to keep that up to date.

Probably the other element where there will be more expenditure was in regard to cyber. The board has just signed off on our cyber strategy. That is an enterprise-wide initiative because cyber is as much about what you have from a perspective of your software preventions but it all stems back to human behaviour and appropriate training of our people. We are working with our email in particular in regard to cybersecurity because ultimately cyber and transmission is in the national interest and AEMO is very concerned that all the transmission and distribution businesses have appropriate cyber practices in place. The industry is collaborating and doing a lot of work.

I probably have not answered your question specifically, but we are a very IT-dependent business and continue to be that. If you think about what we have now with our distribution system, the visibility of solar with a large generator, approximately 100 megawatts of solar installed - we do not know where that is. One of the ways we think we can get a better handle on where solar is on our network is through technology investment.

**Ms FORREST** - So why do not you know where that is? Don't you have to put in an application when you are feeding back into the grid? Are you talking about the ones that are not feeding into the grid?

**Mr BALCOMBE** - Yes, all we know is they are solar connections. From a point of view of how it all operates, what it is doing at the time - is it coming in?, is it coming out? - we do not have access to all metering and suchlike. It is about understanding what the impacts on the network are. This is becoming a bigger issue on our networks and is going to be solved to some extent by further investment in technology.

**Dr NORTON** - The other point is we are a regulated business. Our revenue determinations are overviewed in excruciating detail by the Australian Energy Regulator, and one of the areas they concentrate a lot of attention on is our capex on IT. They need to be convinced that what we are doing is justified and ultimately in the best interests of our customers.

**Ms FORREST** - Looking at page 23 of the annual report - the opex and capex breakdown there and your budget and actuals in table 5 there where you've fallen a bit short on both of those: do you expect to meet both in your budget next year?

**Mr BALCOMBE** - I am sorry, where?

**Ms FORREST** - Table 5 on page 23.

**Mr BALCOMBE** - From the point of view of our results?

**Ms FORREST** - Yes.

**Mr BALCOMBE** - We are actually tracking ahead at the moment. We are about \$10.5 million ahead of target on a P&L perspective because we have recovered more revenue than planned from customers. That is good news for customers because we hand all that back next year under the regulated arrangements.

**Ms FORREST** - How much of this relates to software, just going back to that heavy software reliance? Do you have a percentage or an idea how much relates to software?

## UNCORRECTED PROOF ISSUE

**Mr BURRIDGE** - Our software assets depreciate over 10 years, so they are a fast depreciator. You see a bit in our forward projections with depreciation going up with things like Agilis Networks being depreciated quicker. As far as direct opex, it is difficult to pull that out from these numbers. It certainly has an impact, but it has a payback too, so we have an investment in software. One is, as Lance says, a compliance issue but things like Agilis are going to deliver us \$76.9 million-worth of benefits over that 10-year period. It is not just a cost.

**Ms LOVELL** - Minister, I have some questions around Tariff 41 and hydroheat tariffs. In August 2015 your predecessor Mr Groom told the *Mercury* the state Government opposed the removal of tariff 41; he said -

We have made it clear to our energy businesses that we will not support any changes to tariffs which will see Tasmanians worse off.

However, since that date the tariff has steadily risen. In November 2015 Labor tabled a petition signed by 450 Tasmanians calling on the Government to categorically rule out changes to Tariff 41. To date there has been no response to that petition. My question is: when will the Government respond to that petition and is it your position, as it seems it was the position of your predecessor, that Tariff 41 should rise?

**Mr BALCOMBE** - One of the objectives under the revised national energy rules and under the regulatory arrangements is a requirement for distribution businesses, in particular, to move to what is called cost reflective tariffs. Bess gave some background about that because consumption-based tariffs as they work at the moment do not reflect the cost to customers of how the network is built out. In particular, solar customers receive a subsidy because their net consumption is lower than a customer who does not have that. There are cross subsidies right across our tariff suite, even between residential and small business in particular.

At about the time you referred to, we went out with a consultation document as part of our shift towards cost reflective tariffs. It was a consultation document only, where we suggested over time we sought transition away from Tariff 41 on the basis that continued cross subsidies was - Tariff 41 is a hot water and heating tariff - are encouraging people to use the network at the wrong time. On a cold winter's morning we are increasing demand through a low subsidised tariff as opposed to sending the right signals to customers.

You are right, it was unpopular. Mr Groom, the minister at the time, intervened in the process and made it very clear to us at TasNetworks that any transition had to be done in a very gradual manner to ensure there was no price shock to customers.

On 1 July this year we had a 20 per cent reduction in distribution prices. We took the opportunity to rebalance between the standard household tariff and Tariff 41.

For about 98 per cent of customers that resulted in, I think, a net 9 per cent increase across those two tariffs. While we rebalanced, that still contributed to an overall benefit to customers because ultimately this is very much a long-term game. If we are going to start adjusting customers' behaviours and prevent ourselves from building out the network, which really is the principal cost driver of the network, we will have to change customers' behaviour.

We are also cognisant of the impacts of doing that too quickly. We are doing it very gradually; we are talking about a 10- to 15-year time frame, but we will take opportunities, as we

did on 1 July, to accelerate that because we are able to package it with what we were doing with regard to the standard Tariff 31 arrangements.

It is something we continue to consult on. As part of our regulatory process, we are required to prepare and lodge what is called a 'tariff structure statement', which talks to this issue in particular. If you were to ask the regulator and some of the other overseeing bodies with regard to these tariffs, they would argue that we should be going faster, but we are very cognisant of the impact on customers. It is a slow and gradual transition, but we will take opportunities to accelerate it when we can.

**Dr NORTON** - Tariff 41 continues to be in place and there is no plan to scrap it, but the differential benefit is less compared to the standard tariff than it was because of the advantage we took. What happened with the new prices in the middle of this year was that non-Tariff 41 customers got a bigger reduction in cost than Tariff 41 customers.

**Mr BARNETT** - To confirm what has been said by the CEO and the chair, Tariff 41 is linked to Tariff 31, but Tariff 41 is here to stay. For hot water and heating, it is here to stay. We have made it very clear that our Government is a government of low power prices and the Labor Party is the party of high power prices, with a 65 per cent increase under the previous Labor-Greens government.

**Ms CLARK** - The other thing that is worth understanding by the committee is that Tariff 41 is a retail product. TasNetworks has what is known as our network Tariff 41. We are one part of the end customer. It is worth noting our network charges are an input to that, but the retail tariff is the one the customer sees.

**Ms LOVELL** - Last year TasNetworks said there were 6000 faulty Cable PIs at large after a couple of them caused fires in customers' homes. How many of those 6000 have been recovered, and how many more since then have been recovered in the last 12 months?

**Mr BALCOMBE** - I will have to take that question on notice because we thought that one would be dealt with. What I will say is that they are a very important device. Generally, if these items fail, they fail early. We are confident we have captured most of those items which have either been returned or have been out.

You might have seen we have been running a few ads lately focused on public safety with the catchcry 'When did we forget about electricity?' Cable PI will be one component of that. We have improved our processes, so if you ring up and ask for a Cable PI, you will get one within two to three days. To the extent we can, we have pulled them out of the system, but we are confident there will be no further issues with regard to the faulty devices.

**Ms FORREST** - Page 81 of your annual report - could you tell me a bit more about the accrued income and unbilled use of system included along the receivables on that page? Receivables are only about 15 per cent, whereas accrued and unbilled income is 85 per cent, as I read it. Why are there the disproportionate amounts?

**Mr BALCOMBE** - I will defer to Ross on that question. It is a very good accounting question, Ms Forrest.

**Mr BURRIDGE** - With recruit income not billed, we have earned it, but not billed that out to a customer. That might be for all our lines of business, the unregulated part as well - telecommunication services, data centre services - where, at 30 June we provide the service but the bill has not been provided. The unbilled user system is a calculation that anticipates what we have not read in the market.

**Ms FORREST** - You have not what?

**Mr BURRIDGE** - Have not read - meters have not been read as at 30 June. There is an estimation process that accrues that income that we will receive in the next year. It brings that income to account on an estimate basis and then it will be brought to account as people are billed.

**Ms FORREST** - It would be good if you could have a chat to Hydro about how you do this because they do not do it as well as you. Maybe you would like to talk to the CFO at Hydro. We have had quite some discussions about that previously.

**Mr BURRIDGE** - We can do that. I used be CFO of Hydro, only acting CFO.

**Ms FORREST** - Maybe it has fallen away since you left.

**Mr BURRIDGE** - Maybe.

**Ms FORREST** - Your estimates have been reasonably accurate, do you think, in this area? The Auditor-General raised the high level of estimation in Momentum's area that is unbilled. Is yours generally fairly accurate?

**Mr BURRIDGE** - In the early days of TasNetworks we had this tested - and we are not laying blame on our legacy businesses - and we picked up an unbilled amount at the start of TasNetworks which, when we went to receive the cash, did not match and we found an error in the process so we fixed that error.

**Ms FORREST** - That was the takeover from Aurora?

**Mr BURRIDGE** - Correct. It tested our processes in the first few months and I am very confident these are accurate now.

**Ms FORREST** - I want to correct something I said earlier. I said there was \$373 million on IT. That was including the Hydro spend as well. I had added them all up because there is a lot and that is a huge amount spent on IT. We do have to control the system; I understand that.

**Mr VALENTINE** - Some questions on your asset management processes. What is the status of your assets overall? Are you behind in maintaining them or in front? What is the model you use when it comes to ageing assets?

**Dr NORTON** - I will give a brief overall contextual statement. The transmission network in Tasmania has had major investment over the last 20 years. It was not in a very good state. During the old Hydro and then Transend and now TasNetworks but particularly during Transend, a lot of money was invested in upgrading and strengthening the transmission network and so on. Generally speaking, our transmission network is in good shape. Our distribution network is



probably not in as good a shape. We heard before that we have pole replacement challenges for a lot of the poles that are 50 years old or ones that were replaced at the time of the bushfires.

In the distribution space, we have had a lot of focus over the last 12 months or so on vegetation management. If you look at the financials from last year, our operational expenditure was over-budget and the board made a conscious decision that we needed to have a more intensive program of vegetation management.

As an overview, transmission is in better shape than distribution, but our distribution system is in pretty good shape but it is not quite -

**Mr VALENTINE** - Can you describe the difference between distribution and transmission? I think a lot of people out there probably think they are the same thing.

**Dr NORTON** - It is big towers and little towers. The transmission is the 110 kV and bit of 220 kV, large transmission towers, and the distribution network is primarily the 11 kV and then 240-volt system around urban areas and what you see in rural areas.

**Mr VALENTINE** - It is your highways and your little streets.

**Mr BALCOMBE** - I might get Wayne to talk about that. This question is right up his alley. From a point of view of how we understand the condition of the network, I will let Wayne answer that.

**Mr TUCKER** - From an asset perspective our chairman is right. The transmission network is in pretty good shape. We need to invest a fair bit in the distribution network over a long period. It is a fairly sustained investment. The age of the assets is a factor. It is not the key factor with regard to the management of the assets; it is more the condition of those assets. Some assets by their nature and the circumstances in which they are in service will last beyond their normal life. On other occasions different designs do not. We manage by condition rather than by age.

**Mr VALENTINE** - In doing that, when you get a component failure, like a tower for instance that might fall over - I do not know how often that happens, probably not very often - do you then re-age that type of asset on the level of failure that you are getting? I am interested in how you do that. I call it 'aging'; I am not talking about the years.

**Mr TUCKER** - We have strategies for each asset category or asset class or a type of asset. We look at the reliability and the performance of those assets, look for underlying trends, if the information tells us about the condition of those assets, and then we modify our strategies to manage the performance of those assets to acceptable levels. We might bring forward replacements or we might increase condition monitoring or increase maintenance practices, for example.

**Mr VALENTINE** - You are not leaving yourself open to major shocks as a result of a major weather event? That is the sort of thing I was interested in.

**Mr BURRIDGE** - We continually look at the assets and the performance of those assets. As you mentioned before, major weather events are something we are looking at and we continue to do more work on that to be sure our assets can withstand any changes.

**Mr VALENTINE** - In terms of meeting the financial demand for asset maintenance, do you use a general depreciation on each of the assets and take the asset maintenance out of that bucket? How do you manage the financial side on a daily basis? If something falls over, do you have a depreciation schedule and you grab the money out of that bucket?

**Mr BURRIDGE** - We have operating budgets. Corrective and emergency maintenance is based on the last trends and we undertake those repairs as required.

**Mr VALENTINE** - You revisit that on an annual basis or less than that?

**Mr BALCOMBE** - It is at least annual and reported monthly. For instance we have a 10-year asset management plan, but we are crystallising that with regard to transmission distribution. We have used that as a key component to incorporate into our revenue proposal. Alongside that we also produce a very important planning document, which is our annual planning report. It is a border-proof document. We consult widely in its preparation and after its publication because that flags where we see areas of potential investment coming. It is a good consultation document so people understand what we are doing. It is a very important piece of work for us.

**Mr VALENTINE** - You would not be using things like just-in-time planning for asset maintenance like Hydro might?

**Mr BALCOMBE** - No, we are trying to move away from reactive to proactive. Unfortunately, with the nature of our network, things break. That is the reactive element. What we are trying to do is be more predictive. The transmission network is a few large assets whereas the distribution network is millions of small assets. There will always be a reactive element to that but we are trying to get to a space where we are more predictive so we understand condition and trends. We talk about the poles so we know there are issues with poles. Other elements will come forward over time as we get a better handle on this.

**Mr VALENTINE** - What is the basic policy on vegetation management? Do you only clear under lines on public land and leave private landholders to be responsible for clearing private land?

**Mr BALCOMBE** - Yes, at a very high level. Vegetation spend is our biggest single component of expenditure. We are spending close to \$20 million between transmission and distribution.

We are in catch-up mode. It took us a couple of years to understand the condition of the vegetation management so we have accelerated that spend, as the chairman indicated. We brought a proposal to the board where we needed to accelerate that because we were not comfortable with the state of the vegetation.

Ideally, again it becomes less reactive. Once we get the vegetation on the network to the state where we are comfortable with it, it becomes more cyclical. We can travel around the state as opposed to jumping on various hotspots where vegetation has encroached on the network.

Again, once we are into that regime at the end of next year, we would be able to change our contracting arrangements and benefit from that as well.

## UNCORRECTED PROOF ISSUE

**Mr VALENTINE** - In a suburban context, if you have main lines in the street going from pole to pole, you would keep those clear but with house connections inside properties you would expect the landowner to do that with an approved contractor?

**Mr BALCOMBE** - Yes.

**Ms FORREST** - How is the \$10 million TasNetworks is paying for the feasibility study for the second interconnector being funded?

**Mr BARNETT** - It is being funded through TasNetworks and it is a very important project. We are proud of it. It has been announced on the public record but if you wanted to add to that -

**Mr BALCOMBE** - Thanks, minister. There are two elements to this. It has been announced as a \$20-million project, with \$10 million to be funded by TasNetworks and \$10 million to be funded by the Australian Renewable Energy Agency, ARENA.

In order to access that money from ARENA, we have to go through an application process. In order to prepare that application we have to scope out the project. Bess has a new job - as of last Monday week, she is heading that project. It is a very significant and ambitious project. The other element to that is that there is a governance arrangement around this.

With respect to TasNetwork's component, we have to take the project to our board. I would be comfortable to say to our chairman that TasNetworks and ultimately the Government would bear the cost of this project. It won't be passed back to customers. It will ultimately be reflected through lower returns from the business - that is, through lower dividends.

**Ms FORREST** - It is another reduction in return back to Government, with the intention of the \$10 million less.

**Mr BALCOMBE** - Yes, but that is over a few years. It will probably take somewhere between 18 months to two years to complete that project.

**Ms FORREST** - I thought there was a 12-month requirement.

**Dr NORTON** - We anticipate that by the end of next year we will at least have an interim report produced. However, we cannot guarantee that all the work is going to be done by December next year.

**Ms FORREST** - Are TasNetworks and Bess doing all the work or are other people doing it?

**Dr NORTON** - We will be using outside advisers to do a lot of the work.

**Ms FORREST** - Does the payment of consultants account for some of the \$10 million spend?

**Dr NORTON** - Yes. The \$20 million - none of that money will be spent internally. We are not going to get any money -

**Mr BALCOMBE** - Yes we do. It is incremental spend, a combination of our own resources and external resources that we use. ARENA will fund half of that - \$10 million - assuming the

## UNCORRECTED PROOF ISSUE

spend is \$20 million. We have to go through a process with ARENA to access that money. There is a governance process we have to go through with ARENA.

**Mr VALENTINE** - To make sure you are spending it properly?

**Mr BALCOMBE** - To make sure it is spent on the right things because, in the end -

**Ms FORREST** - They have to approve the way their work is done.

**Mr BALCOMBE** - Yes, that is right.

**Mr BARNETT** - Through you, Chair, in answer to that. It is a joint venture, the work is commenced. The announcement was made a few weeks ago. Obviously there are a lot of boxes to tick, and i's to dot. It is important work.

The federal minister has made it clear that it is national infrastructure. It is a very exciting project. The feedback we have had is very positive, including on the north-west coast with the major development up there.

TasNetworks is working cooperatively and collaboratively with ARENA in consultation with the state Government, and we are excited about this new project.

**CHAIR** - Thank you, minister. On behalf of the committee, thank you very much for your time and thank you to all your advisers and everybody else.

**The Committee suspended at 3 p.m.**