THE PARLIAMENTARY STANDING COMMITTEE ON PUBLIC WORKS MET IN HENTY HOUSE, LAUNCESTON ON TUESDAY 5 DECEMBER 2006.

Mr CAMERON MATTHEWS, DIRECTOR OF CORPORATE SERVICES, LAUNCESTON GENERAL HOSPITAL; **Mr RICHARD LETTE**, BUSINESS AND RISK STRATEGY, DHHS; **Dr STEPHEN AYRE**, CHIEF EXECUTIVE OFFICER, LAUNCESTON GENERAL HOSPITAL; **Mr MARK CAHILL**, MANAGER INDUSTRY, GHD PTY LTD; AND **Mr MICHAEL GRAVER**, GHD PTY LTD WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

- **CHAIR** (Mr Harriss) Thank you, gentlemen, for the site visit. We choose to keep the committee procedure reasonably informal.
- **Dr AYRE** Thank you, Mr Chairman. You have already received our submission. Essentially this is an opportunity at the Launceston General Hospital to convert our gas supply from the LPG system, which is a major issue for us, to natural gas. That has been afforded by the provision of natural gas to Tasmania, which has recently occurred.

I think we have a number of problems and issues at Launceston General and some of these are associated with the current infrastructure. The infrastructure is ageing, the hospital is about 30-odd years old. The prime issue for us is in the replacement of our boilers, which provide heat and steam to the linen service. They are in need of replacement and are currently using old technology. They are manned boilers and they use heavy oil, which obviously has pollution effects. With the advent of natural gas there was a real opportunity for us to convert, replace the boilers and reap the benefits of the use of natural gas as opposed to heavy oil in that area. At the same time, with the natural gas passing the hospital, we have the opportunity to use natural gas in our heating needs in the hospital and our cooking areas. We have also looked at that and we believe that that will be a major asset to us in converting to natural gas. Natural gas is cheaper and pollution free and is also a safer gas than LPG, as we have heard in our site visit.

The third arm is to improve the capability of the Launceston General Hospital in an emergency situation. Currently in the failure of the electricity supply we can only support the hospital to 20 per cent of its capacity for up to four hours. We believe that with natural gas there is an opportunity to introduce a co-generation plant whereby we can make our own electricity and provide up to 80 per cent of the hospital's needs in an indefinite sense. So, if the electricity supply were to fail in the community, we would still be able to function indefinitely using up to 80 per cent of our capacity. That would essentially make us fully functional because that 20 per cent would be in areas that are really not critical in the hospital.

I think this solution is really a win-win for us in that it provides cheaper energy to the hospital and will also improve the capacity of the hospital in an emergency situation.

Mrs NAPIER - I have a question about the financing of it. You have indicated that the budget of the project is about \$3.867 million, but you are going to take either four or five

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years to pay it off. In the interim you are funding it through - and it says on page 3: 'using revenue generated by the department but not paid into the Consolidated Fund'. It also says: 'Accounting for this project will not affect the level of funds in its special purpose and trust accounts'. Could you explain to us how the financing is going to be organised?

- **Mr LETTE** At any point in time the department carries significant cash balances in its operating account as a result of its retained revenue, which is not paid into the Consolidated Fund. So by utilising that funding we can make the funds available for this project. It is a cash-flow issue for us. Because this project generates significant financial benefits for the LGH, that provides us with the means to pay back those funds into the department's operating accounts. So there is no net impact on the department's operating account.
- Mrs NAPIER That would be fees and charges and private patients.

Mr LETTE - Yes.

- Mrs NAPIER Usually the private patient fund is redirected through the -
- **Mr LETTE** Sorry, I should have said that. The special deposit and trust funds are excluded from the funds that are made available for this project.
- Mrs NAPIER So the special deposits and trust funds -
- **Mr LETTE** We are not touching the special deposits and trust funds.
- Mrs NAPIER I just wondered if you had negotiated that -
- Mr LETTE No, sorry.
- Mrs NAPIER So you are not touching that?
- Mr LETTE No, they are quarantined.
- **CHAIR** Just for accuracy purposes, I was going to suggest that we amend where the report says 'special purpose' and that is the special deposit and trust accounts.
- **Mr LETTE** I think the terminology that we used is 'special purpose and trust accounts'. I know it used to be referred to as the special deposits and trust accounts.
- **CHAIR** But still is in State government finance reporting.
- Mr LETTE That could be a typographical error.
- CHAIR That's fine. I think we'll make that change when we come to it.
- **Mrs NAPIER** So what you are indicating is that the funding is not coming from private patient and other fees and charges associated with medical procedures. Where do the funds come from?

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- Mr LETTE The private patient fees are a particular stream of revenue and are applied against the special deposit accounts. The department earns revenue in a number of ways I am trying to think of the different revenue sources that we have bed-day fees is one.
- **Dr AYRE** The bed-day fees are treated differently from the patient fees, so the bed-day fees go into general revenue. The cafeteria we provide food services to some of the aged-care facilities so there is income related to that. The linen service -
- Mrs NAPIER I think you provide cook-chill for others.
- Mr LETTE That is another source of fees.
- Dr AYRE We also generate revenue through the linen service.
- **Mr LETTE** It's not just restricted to the revenue that is generated by the hospital either. It is the revenue generated by the department.
- Mrs NAPIER By the department overall?
- Mr LETTE Yes. As you can imagine, there are various sources of revenue across the department.
- **Mrs NAPIER** The reason for asking is whether redirecting these funds to a project of a capital nature would detract from ongoing patient deliveries?
- **Mr LETTE** No. As I said, the intention is that those funds are repaid. There will not be any loss of funds for other purposes.
- Mrs NAPIER So it won't result in the delaying of the delivery of the current services?

Mr LETTE - No.

- **Mrs NAPIER** In terms of the estimates that you have shown on page 14, the savings that are anticipated, you have made a projection on the basis of the escalation of Aurora's prices relative to natural gas. I was interested that you said that probably another component of that might be that you have some competition built into the energy sources now, in that if the Aurora costs go up then you can give greater weight to the natural gas or vice versa.
- **Dr AYRE** Yes, exactly. We believe that the electricity cost is going to escalate quite significantly with the joining to the National Electricity Market, so these are very conservative estimates. We think it will be much higher.
- **CHAIR** So your conservative estimate there, Stephen, is that the anticipation was CPI plus 1 per cent, and if it's substantially more than that, as you are suggesting, then your bottom-line cost savings over that 15-year period is going to be much more than \$21 million.

Dr AYRE - Exactly.

Mr LETTE - And that is demonstrated on page 15.

- CHAIR And more particularly in Appendix A.
- **Mr MATTHEWS** We probably should note here that we have used CPI of 3 per cent and CPI is currently is 4 per cent, so we've tried to be as conservative as possible with our figures.
- **Mrs NAPIER** We mentioned it when we were on the site visit, what anticipated impact do you think your moving into energy generation to become more self-sufficient is going to have on energy prices? When is your next contract negotiation with Aurora?
- **Dr AYRE -** We have an ongoing contract with Aurora so there is no set contract with them. There is quite a bit of flexibility in our approach with Aurora. We recently moved to a kVh, a different way of calculating our costs because Aurora came to us and suggested we change to this different tariff. So we don't actually have a set contract with Aurora.
- **Mr LETTE** We've also been very careful on that issue in relation to our gas supply agreement as well to give us that flexibility.
- **Mrs NAPIER** How does the recurrent cost of running this service relative to what you are doing now compare?
- **Dr AYRE** There's a significant improvement because these are unmanned boilers. There are two staff members who are having to run the current boiler as a manned boiler. So that will be a significant saving as well. The maintenance costs initially will be very low but I understand that they are built into the scenario.
- Mr LETTE So you're looking at the net financial impact.
- Mr BEST What will happen with those two positions then? Are they boiler attendants?
- **Dr AYRE** Yes, they are. One is approaching retirement, as I understand, and we have been talking to the other member. We have positions that are kept aside for them so they will be maintained in the system, unless they choose to leave.
- Mr BEST Do they maintain their remuneration?
- Dr AYRE Yes, all their arrangements would be the same.
- **Mr BEST** You mentioned the life span and you said that the current facility is ending its life span in 30 years. What is the projected life span of this project or this new facility, do you think 30 years?
- Mr CAHILL Modern boilers aren't as good as your old ones.
- Mr BEST I suppose you have worked it out over your payback period of 15 years?

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- **Mr CAHILL** You would be pretty disappointed if you got less than 20 years out of a modern boiler but they're not quite as good as the old Trevor ones used to be. You're talking about the same time scale, 15 to 20 years, as far as the generator set is concerned. Around about 10 years, you may need to do a bit of a refit on it. A lot of the auxiliaries and so on wear out. But that would come under general maintenance. The arrangement you have put in place for the generator is that it is a build and operate; it is not an own. So the hospital will own the generator, and this goes to Powerco's area but their intention is that the people who put the generator in will also operate it for the life of the contract.
- **Mr LETTE** That reduces operational risk during the life of the project because the company that we acquire the generator from will also enter into a long-term maintenance agreement with them. They will be best placed to be able to maintain that unit.
- Mr BEST So you won't actually own those boilers?
- **Mr LETTE** No, we will actually own them but as well as acquiring the unit from a company part of the assessment of the tenders we receive will not only be the cost but also the cost of the operating and maintenance agreement over the 15-year period of the project.
- **Mr CAHILL** If I might clarify that, as I understand it, there is a different arrangement for the boilers and for the generator. The generator is under a 15-year build-and-operate arrangement; the boilers are under a more conventional arrangement. It's a supply and install arrangement, and that is maintained for I think 12 months. I am not sure about the 12 months. It will be in the documents. Then they come back with the hospital.
- **Mr BEST** In relation to the savings, I realise that it's a real saving, I suppose in some ways it's a paper saving in the sense that you don't have the cash. You're more efficient but it's not as though you have that money now, though, have you, this money that's created in these projections?
- Dr AYRE It's an avoided cost. That's the bottom line.
- Mr BEST Will you actually have that money, those savings?
- Dr AYRE Yes.
- Mr BEST You will?
- Dr AYRE After the payback period.
- Mr BEST Right. What are your intentions there?
- Dr AYRE That will obviously offset growth, the growth in our costs in the organisation.
- Mr BEST In other areas?
- **Dr AYRE -** In other areas, yes.

- **Mr BEST** So it doesn't go into medical, it stays within management/operational/maintenance sort of thing?
- **Dr AYRE** No, it will go into the bottom line of the LGH, which obviously is a continuing escalation.
- Mrs NAPIER Was your payback three years or four years?
- **Mr LETTE -** The actual economic payback period is four years. The intention is to pay the fund back over five.
- **Mr HALL** I noticed the project costs on page 16. Normally there is a contingency in there somewhere and I can't see anything there. Can someone give me an indication as to why that hasn't been included in this case? There is nothing there. It's usually 10 per cent or whatever in a project of this size.
- **Dr AYRE** My understanding is that is always built into those costs so, for example, the cogeneration plant and works has a contingency in that, but I would be advised on that.
- **Mr LETTE** My understanding is that there's a margin on each of these costings so rather than have a single line item, contingency, it's built into each because they will be different contingencies, different risks.
- **Mr HALL** I suppose that's something of a departure from what we've normally seen in projects.
- **CHAIR** It is because with every capital project we see before us, whether it be a building project or a road project, there is always the contingency. We could easily identify that; we could then ask questions related to it if not the need for the contingency, in the case of buildings there will be foundation issues and so on. I don't know whether Greg wants to pursue that any further in terms of the built-in contingency for each item or whether he wants that identified.
- Mr HALL I think we will, if that can be done.

Mr LETTE - Yes.

- **CHAIR** Just to follow that through a bit, Greg, the cogeneration plant and works, \$2.2 million, that's the biggest slice of the project. What is the contingency in there is probably the most important but there are certainly all the others. Let's have the breakdown. I think that is important.
- Mrs NAPIER Presumably that's a ballpark figure?
- **Mr LETTE** It's the best estimate that could be provided before we go out to the market. There will always be some uncertainty, particularly with something as specialised as cogeneration plant. The response we get from the market will change over time so it's very hard to be totally precise with something like this. But certainly this is based on the best information available to us.

- **Mr GRAVER** You need to understand that it's a design and construct contract so what we've shown you today is in-principle works. The supplies of equipment have to be detailed out. They have to come through and say, 'We're going to fit our unit in here and we're going to connect it into this existing infrastructure in the hospital'. Depending on the nature of the agreement, it will affect those workers as well. In terms of being definitive about pricing, that's all contingent on that tender process.
- **Mr LETTE** Some suppliers may have better solutions than others more cost-effective solutions so we are leaving some latitude in the specification for the works to enable the people that specialise in this area to put forward what they believe to be the best solution to the set of functional specifications. There will be some flexibility. It is just so that we don't set a particular solution or identify one when that may not be the most cost-effective one available.
- **Mrs NAPIER** I was interested when we were having a look at the flume area where the hot air may be released. What exactly will be released into the air from the flume? The other part of it is the extent to which you are asking for designs that will minimise the loss of any heat or any other gas into the air in terms of making it the most environmentally friendly plant we can come up with.
- **MR CAHILL** I guess I had better have a go at that one. Hot air nothing more than that is going up the shaft. Then there is an exhaust pipe which discharges at the end of the shaft. Any of the combustion products from the engine will be discharged at the end of the exhaust pipe out the top of the shaft. All that is occurring in the shaft is the warming of the air for cooling purposes. There is nothing worse than hot air in that shaft that is what is there at the moment.
- Mrs NAPIER I just wondered the extent to which it met environmental standards.
- **Mr CAHILL** The intention there is that obviously the tenderers need to include in their tender documents the fuel consumption in the operation of their plant. In comparing the different tenders, you would be looking at the efficiency of operating that piece of plant and that will go for the boilers as well. Over the whole life of the project the actual capital cost is quite small. The energy consumption is where your real costs are, so obviously any efficiency saving you can make up front over the life of this sort of plant is well worth doing. That is why in comparing tenders you do not just look at the bottom line price; you are actually looking at the effect of their fuel consumption as well. That is where you are picking up your efficiencies in looking at one co-gen plant versus the other. It will be not only the capital cost but also the fuel consumption.
- Mrs NAPIER Are you able to access some greenhouse credits through the Federal process?
- **Dr AYRE** I do not think Tasmania participates in the credit system. The only State that has the carbon credits is New South Wales. You are probably aware that there has been some discussion federally about carbon credits but at the moment we don't have access to them.
- **Mrs NAPIER** There is no way that you could trade them off against another industry's offsets?

- Mr LETTE I think we would actually have to put our electricity into the transmission system to get access to that -
- Mr CAHILL I might just correct you a little. As long as you are connected to the National Electricity Market you can actually trade on it. As long as you are connected to the market that New South Wales is accessing -
- Mr LETTE And we have looked into that.
- **Mr CAHILL** and use what is called the NGACs, you can actually trade them and it is usually an offset arrangement. There are certainly fairly definitive guidelines to achieve those and I don't think putting a gas engine in for power generation would -
- **Mrs NAPIER** You are actually moving from oil, aren't you? You are moving into more environmentally friendly forms of energy generation. Because it is also tapping in gas, which is all part of the National Grid now because of Basslink, it seems to me there might be some potential for getting a good sponsor.
- **Mr CAHILL** There are two parts here: the oil to the gas is on the boilers that is not power generation so you can put that aside. The actual power generation is straight gas, so it is actually putting in plant. You are not offsetting any -
- **Mrs NAPIER** I think you are offsetting the environmental impact though, because you are not using oil any more.
- Mr CAHILL No, not for power generation because currently you are on hydro power.
- Mrs NAPIER Okay. You are just using it for a heating source?

Mr CAHILL - Yes.

- Mrs NAPIER I am presuming you looked at those angles, because it makes a lot of sense.
- **Mr LETTE** We certainly did and my understanding is that it was not possible for us to actually utilise that steam in New South Wales to get the carbon credits.
- Mr CAHILL That would certainly be my understanding.
- **Mrs NAPIER** The only other question I had was in relation to the generator: when we were down in the basement at the LGH, you talked about where the co-generation system would be based. Could you make some comments for the record about the vibration and sound impact on the operation of the rest of the hospital?
- **Mr CAHILL** The intention would be that the plant going in there should have no impact on increasing the noise or the vibration levels within the hospital.
- **Mrs NAPIER** What kind of noise do you currently get, presumably from the kitchen above, I think you suggested? Presumably it's the diesel generators that cause that noise and vibration.

- Mr CAHILL When the emergency generators are running there have been no tests done on the noise levels that I'm aware of.
- **Dr AYRE** It hasn't been raised as a major issue at all. I think people are aware of a noise when they're on but it's not significant. The patient care areas are two levels higher so there is level 3 above the level 2 kitchen service areas. Level 3 is the ambulatory area, the emergency department, so the inpatient areas are another level up.
- **Mr MATTHEWS** The emergency source at the moment is directly below pathology and has a vent that goes outside the hospital, next to pathology. If you are walking outside the hospital you can hear it and you can probably hear it also in pathology, but again, away from the patient areas.
- **Mr HALL** Is the project schedule realistic, given that this committee might or might not approve of that?
- Mr GRAVER Six months and nine months I think are the basic times.
- Mr HALL So you're looking at finishing in October?
- Mr GRAVER Yes. We think that's a realistic time frame.
- Mr HALL Will there be any disruption to hospital services during the installation period?
- **Dr AYRE** No, we don't believe so. We will do it to minimise any impact. That will be one of the prerequisites; we have to maintain our functionality.
- **Mrs NAPIER** If you're switching to natural gas, does this project include the cost of converting the kitchen? Is that part of the conversion of appliances?

Dr AYRE - Yes.

- **Mrs NAPIER** Are you going to be able to convert most of them relatively easily or will you need to replace some?
- Dr AYRE Some of them will need to be replaced because again, they're 30 years old.
- **Mrs NAPIER** So you haven't had a kitchen upgrade the same as the Royal Hobart Hospital had?
- **Dr AYRE** No, so some of the gas appliances will need to be converted over, so we have been looking at that.
- Mrs NAPIER Does the kitchen need an upgrade or is it mostly equipment issues?
- **Mr MATTHEWS** The equipment is reasonably old; the Bratt pans are 22 years old. We are going to get three new Bratt pans and a flat grill as well. There are some cracks in the Bratt pans. There is also an over there that has recently been bought. It is currently running on LPG but has the jets available to convert straight across.

CHAIR - Gentlemen, thank you very much for your presentation and the documentation. It was very helpful.

THE WITNESSES WITHDREW.