

UNCORRECTED PROOF ISSUE

Thursday 4 December 2014 - House of Assembly - Government Businesses Scrutiny Committee - Tasmanian Networks Pty Ltd

HOUSE OF ASSEMBLY

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

Thursday 4 December 2014

MEMBERS

Mr Brooks
Mr Green
Mr Llewellyn
Mr McKim
Mrs Rylah
Mr Shelton (Chair)

SUBSTITUTE MEMBERS

Mr Barnett
Mr Booth
Ms O'Connor

IN ATTENDANCE

Hon. Matthew Groom MP, Minister for Energy

Ministerial Office

Sean Terry, Deputy Chief of Staff

Tasmanian Networks Pty Ltd

Lance Balcombe - Chief Executive Officer

Dan Norton - Chairman of the TasNetworks Board

Bess Clark - General Manager Strategy & Stakeholder Relations

Ross Burrridge - General Manager Finance & Business Services

The committee resumed at 2 p.m.

CHAIR (Mr Shelton) - Ladies and gentlemen, welcome to the hearing.

Mr GROOM - TasNetworks has only been in operation for part of 2013-14. It is a new company that has emerged out of the merger of Aurora Distribution and Transend. It is performing an important function as part of broader reform initiatives to identify greater efficiency and savings within the energy sector. It has been a very challenging period for the employees of Aurora and Transend. Regrettably these processes, as important as they are, impact on individuals. There has been a requirement for some consolidation and as a consequence some positions have no longer continued. That has an impact on people, which we must acknowledge. It is important from the Government and TasNetwork's perspective that we are setting up this new business to be efficient, prudent in cost management and deliver on the Government's broader objective of efficiency within the energy sector. That is very important for delivering long-term benefits to Tasmanian power consumers and Tasmanians more broadly.

I would like to acknowledge the leadership shown by Dan and Lance. They have a very strong commitment to prudent cost management and identifying savings that are available and ensuring we are set up as efficiently as possible. At the same time, they are continuing to perform the vital role of ensuring we have a safe and reliable supply of electricity. Often this involves very difficult and sometimes dangerous work. We saw this in 2012 with the bushfire experience with Aurora. Earlier this year we saw TasNetworks display its capacity to respond when we had difficult storm conditions. I would like to place on record my great appreciation and respect, on behalf of the Government, for the effort TasNetworks went to in responding to those circumstances.

There is no doubt TasNetworks is dealing with a new phase in energy. We have spoken a little bit about it earlier today. All aspects of electricity supply are under challenge from the declining demand and alternative technologies. There is a trend broadly towards a greater focus on energy efficiencies, often led by consumers. In the manufacturing sector are dealing with difficult circumstances and that also has an impact. It is critical that we have a company that responds appropriately to those challenges and TasNetworks is showing a great commitment to responding to these difficult circumstances.

One of the things that has been very self evident in the early period of the company is a very strong commitment to customer focus, putting customers and people first. This is very consistent with the broader objectives of the Government. It is one of the things we are looking at as part of the whole-of-state energy strategy. We want to make sure energy works for people. Energy has historically been an area of comparative advantage for Tasmania. We want to restore that advantage that is what the whole-of-state energy strategy is about. A critical part of that is making sure energy works for people.

We also want to make sure that our businesses are set up to be as cost effective as possible. We want to ensure energy is an enabler of economic growth and we are positioned for maximum of advantage in the future. These are key elements of the energy strategy and they are strong commitments of TasNetworks. I commend Dan and Lance for their leadership, their ongoing work, all of the employees of TasNetworks for their ongoing work and with those comments I will hand over the Dan for opening comments.

Mr NORTON - I want to give the committee the opportunity to use as much time as they would like for questions so I will be extremely brief.

We were given the challenge by the previous government to merge these two businesses. As I said to David the idea goes back a long way I remember talking to him about it a number of years

ago. It was a proposal that was endorsed by all sides of politics. We were given a challenge to do that and I think we have successfully done it.

Often when you make changes like this one of the casualties can be safety. People can take their eye off the ball and there is a deterioration in safety performance. Both Aurora, Transend and TasNetworks have, during this change period, a very strong focus on safety. I am very pleased to say the new business, so far, has a safety performance which is better than it has ever been in either of the two companies. Our employees are most important assets and we have been able to bring about this change without jeopardising safety.

The previous minister and previous government gave us a challenge to achieve \$8 million worth of savings. We achieved that before we started the financial year. The leadership team over the last couple of months, as they have got on top of the business, have identified twice that level of savings - at least another \$16 million.

Mr GREEN - That is another \$16 million?

Mr NORTON - By the end of this year we believe we will have taken around \$25 million out of the base that existed before we were established. We can talk to you in detail about how those additional savings have been achieved. It means we can confidently move forward knowing we will achieve the expenditure targets that are in the termination on transmission that we have just received tentative approval from the AER. It also means we will have a much lower cost base to go into the distribution determination, which needs to take place in a year or so. That will translate to further downward pressure on power prices at the retail level. We have already seen transmission determination reducing power prices and we are confident that will flow through in the next determination in distribution as well.

We were challenged and given a set of objectives on the merger, one of which was lowest sustainable prices, and I think we are on track to do that. It does not just happen. It was the leadership team that once they got in their position identified a number of these things. We will talk later, no doubt, about leadership training and how much we spent on that, but you don't get the commitment without getting people on board and the deliverable, I would argue, is the capacity of people to identify and implement those savings which flow on to customers for their benefit. That is really all I wanted to say, but I know the question about whether we have achieved the \$8 million would come, and I am telling you we have achieved three times that.

Mr GREEN - It actually was the report that indicated it would be an \$8 million saving.

Mr NORTON - It was the report, but it was also part of the challenge that was given to us.

Mr GREEN - That is true. The minister mentioned the whole-of-state energy strategy. Have there been any studies, analyses or reports undertaken to assess the feasibility of privatising all or part of the company by sale, lease or private equity investment?

Mr NORTON - Not to my knowledge. We have had no involvement in any such analysis.

Mr GREEN - In the interface with the major industrials on the transmission costs, et cetera, you have had no discussions with them about your infrastructure and the cost of supply and how that is linked to the strategy overall, the cost of transmission?

Mr NORTON - Yes, we certainly have, and Lance can talk in detail about that. We have had a lot of discussions with the major industrials, partly for us to understand the challenges they face, and we had a workshop with one of the major industrials where they took us through how they saved costs and we have given them an understanding of what we are doing. There has been quite a lot of customer interface, especially at the major industrial level. One of the initiatives Lance has been pursuing with them is that under the complicated pricing arrangements for transmission once the transmission determination is made by the AER, you can still have volatility from one year to the next in pricing. You can have a major customer having an increase one year and a decrease the next. We are starting to engage with them on getting a longer-term fixed arrangement that takes some of that volatility out and gives them more confidence as to what their prices are going to be over a period of time. Lance, did you want to talk about that?

Mr BALCOMBE - We have three planks to our strategy. The first plank is our customers, the second plank is our people and the third plank is our business. Focusing on customers at a high level, Dan is quite right, one of the things we need to do is develop a strong understanding and engagement with our customers because without customers, in effect, we do not have a business. Particularly in regard to the MI, I and a couple of colleagues on the leadership team have had regular engagement with all the large MIs. That involved a tour of Bell Bay Aluminium. We took a safety tour to understand where they were in their safety journey and we also exchanged ideas about what we were doing. For instance, we have just rolled out of a zero-harm program that involved 12 sessions right across the state. We involved our contractors in that and exchanged ideas about how we are trying to improve on our safety outcomes.

The other element with our customers is that one thing we do know is that they don't like volatility because that creates uncertainty. Although we have a regulated path with respect to our annual revenues, it creates uncertain outcomes depending on other circumstances about where energy may be transmitted, import or export, over Bass Link and such like. One of the things we have started doing in the very early stage of the discussions with our large MIs is to assess their appetite for some sort of fixed-price arrangement over the term of the revenue determination and perhaps even longer. Clearly that involves an appreciation of risk from our and the customers' perspective.

[2.15 p.m.]

With one customer we are looking to have a workshop in February where we have an exchange of ideas about what a fixed-price arrangement might look like and what sort of term they might like. When you enter into a contract obviously there are risks around that so we would be looking at whether there are opportunities -

Mr GREEN - How does that contract with an individual customer affect other customers, though, based on the current national rules?

Mr BALCOMBE - It is an interesting thing. There is some information with regard to TransGrid in their current regulatory determination where they are looking to embark upon a similar arrangement. They were looking to see it done more under the regulated regime but the Australian Energy Regulator, the AER, suggested that it would be better to look to do it more within perhaps the prudent discount arrangements. I'm not saying we were going to offer wholesale discounts here. What we are offering is price certainties. It is a commercial arrangement but with the backdrop of sitting back with the regulatory framework in hand to that.

Mr GREEN - But no effect on revenue?

Mr BALCOMBE - I think the effect on revenue would make it more certain for both. It would make it more certain for us and take away that inherent uncertainty into the future, whereas at the moment some of the pricing outcomes and annual pricing outcomes tend to surprise the customers. We know these larger customers are managed offshore and I think from a perspective of locking in those prices and that price path over time -

Mr GREEN - I agree.

Mr NORTON - It is not a shift from one customer class to another.

Mr BALCOMBE - No, this is part of the overall response,

Mr GROOM - It is about providing certainty.

Mr LLEWELLYN - Nevertheless, within the time of assessment from the AER it's a difficult proposition, I would have thought, from an AER point of view. They are doing -

Mr BALCOMBE - The AER determines how much money we can charge. They don't say we have to charge that amount of money. That is the slight difference.

Mr LLEWELLYN - But if you are charging less money, the next time you go for a review with the AER won't they take that into account?

Mr BALCOMBE - I will give you an example. In the last two years of Transend's revenue determination they realised they had underspent on capex and underspent on opex so they chose not to charge \$38 million in revenue over those two years. One of the things we did as TasNetworks when we lodged the current regulatory submission was choose to forgo that because it set us on the right path. One of the things you could do is always hold it up your sleeve for a future under-recovery. We chose to forgo that and set ourselves on a forward growth path. There are many choices you have around this. We have to make sure we have sufficient revenues to get an adequate return on our \$3 billion of assets we have invested and produce a sustainable return for the business, but alongside that make sure we have a sustainable price outcome for our customers.

Mr NORTON - We also have to be cognisant that if a number of our bigger customers aren't there we have a big revenue hole and the notion of spreading that revenue across our customer base is not at all attractive, so it's in our interests to try to retain them.

Mr GREEN - Have you had any specific questions with Temmco around their virtual proposals et cetera to lessen the cost of transmission?

Mr BALCOMBE - Certainly we have had engagement with Rod Tidey up there. We have had a couple of meetings with him and have been talking about these opportunities but we haven't progressed it any more beyond preliminary discussions.

Mr BOOTH - It was reported in *The Examiner* today that TasNetworks inherited a \$3 billion asset base but its bosses have warned power prices cannot sustain the business in the long term.

Mr BALCOMBE - I certainly didn't say that so -

Mr BOOTH - It is a misquote? Who did say it?

Mr BALCOMBE - It wasn't me, but I'm happy to address the question, Mr Booth.

Mr BOOTH - I am just quoting out of *The Examiner*, so I presume that they will be able to verify who said it.

Mr GROOM - Chair, just as a matter of process, if I could ask that the question be directed at myself or to the chairman.

Mr BOOTH - You can take that as read.

Mr GROOM - No, I am just saying it as a matter of process.

Mr BOOTH - I am sure Mr Balcombe understands that you should shield him. If necessary, he will give you the signal to shield him but he is quite happy to provide the answer, I hope. Through you, minister, what are you going to do with regard to a business case, because if this is not correct, then obviously you have a problem on how you are going to actually keep the business sustainable without putting up transmission prices?

Mr BALCOMBE - Well, I think we are well on the path of that. We have just lodged a transmission regulatory proposal that incorporates a 12 per cent reduction in operating expenditure over the future regulatory period which commences from the current year we are in and ceases in 2019. I might just refer to a few notes here, if you would not mind. In essence, we have a capital expenditure program which is 57 per cent less than the previous period. So that indicates the good investment that has been put into the system.

The Australian Energy Regulator has recognised the fact that, through the investment that has been made by Transend in the past, we have been able to reduce the level of repex, as it is called - repair and maintenance expenditure in the system. Basically, we do have a sustainable network and reflecting that good condition that it is in, means that we have to spend less on it.

Mr BOOTH - Sure, but just to draw your mind back to the question -

Mr BALCOMBE - If I could finish this explanation, I will. What that means is that we are required to spend less money. That means we do not have to charge our customers as much. Basically, the way that our revenues are built up is a building block approach. So we get a return on our assets and we get a reimbursement for the expenditure we have. So if we are spending less, we are charging our customers less.

Mr BOOTH - But it is a fairly stark statement - power prices cannot sustain the business in the long term. Now you have talked about efficiencies -

Mr BALCOMBE - I am comfortable with it.

Mr BOOTH - So, in other words, it is not inevitable that there will be a power price increase to -

Mr GROOM - A foot on the other path, it sounds to me.

UNCORRECTED PROOF ISSUE

Ms CLARK - Mr Booth missed the opening statements.

Mr NORTON - Mr Booth, perhaps if I repeat the opening statement which I made before you decided to come. We were set a target of reducing our operating expenses by \$8 million. We are confident that by the end of this financial year we will have reduced them by three times that. Our annual opex expenditure is about \$142 million, so we have taken \$25 million out of that.

Mr GREEN - But I think the point is that you are talking about a determination of 12 per cent effective reduction with respect to what you are providing. The major industrials, on the other hand, on the minister's committee would be arguing that there be an across-the-board lowering of the transmission costs into major industrial businesses in our state. I understand where you are coming from and I am all for customers getting less but there is a magic pudding aspect starting to occur here with respect to what you are talking about.

Mr GROOM - There is no magic pudding.

Mr GREEN - There is no magic pudding for the Budget either, but it does not stop you lying about it.

Mr GROOM - No, I think what we are hearing here are hard savings dollars, actually.

Mr NORTON - Perhaps Lance can run through the transmission savings.

Mr BALCOMBE - From the point of view of transmission savings, year on year from 2013-14 to 2014-15 there has been an 80 per cent reduction in transmission pricing. Stepping back one, if we look at that \$38 million reduction in transmission revenue pricing, a good portion of that was allocated to those larger industrial customers and we are still seeing a reduction on that. For the next year, we will deliver a 4 per cent reduction. Then we will see a reduction in pricing 2 per cent below CPI for the remainder of the revenue determination.

Mr BOOTH - Is that for MIs or for everybody?

Mr BALCOMBE - That is for everyone.

Mr BOOTH - Thanks for clarifying it. You have mentioned your dependence on major industrials and the issues that raises for you. Do you have undertakings from your MI customers that they will all still be here in 10 years' time?

Mr BALCOMBE - No.

Mr BOOTH - How far forward do you go with those undertakings?

Mr BALCOMBE - We were talking about that before you came in. We have commenced an engagement process with those customers.

Mr BOOTH - I did hear that. It is an engagement; there is no commitment beyond how far at the moment?

Mr BALCOMBE - There is between customers. Some customers have connection agreements that expire in 2017, some in 2019, some in 2025.

Mr BOOTH - Do you have an expectation, or do you have a plan B? It is a very difficult subject and I do not want to frightened the horses and suggest that any of those companies will leave tomorrow. They are very important employers and also to the grid's ability; I understand that. Do you have a plan B in the event that a large customer - 20, 25 or 30 per cent of the grid - decided to leave? What would you do?

Mr GROOM - What you are highlighting is the importance of the Government to be working very closely with the major industrials and that is what is happening through the energy businesses. They are a significant percentage of the load. If one of them wants to leave, that would have significant upward pressure on power prices. That is one of the reasons why it is important for households and small businesses that we have good engagement with the major industrials and make sure we are working with them to maximise their sustainability in Tasmania. They contribute \$2.5 billion to the economy and 10 000 jobs. This is why the company is proactively engaged with each of these major industrials.

Mr BOOTH - Yes, I realise it is important. I am asking if there is a plan B.

Mr GROOM - It is also why, from the Government's perspective, we have been advocating a position in relation to the Renewable Energy Target. It is important we do what we can to provide every assistance for the ongoing sustainability of these businesses. In addition, it is one of the reasons why the Government is pursuing an aggressive investment attraction agenda. That is why we put in place the Coordinator-General. That is why we have been focused on initiatives like those we have seen in recent weeks, showcasing everything Tasmania has to offer, working with potential investors, attracting additional load. There are also potential packages we could present to potential investors that might be able to attract additional load, but that is another important measure the Government is engaged in. The energy businesses, by virtue of their relationships, have also been involved in some of that thinking. That is the broad position from the Government.

Mr BALCOMBE - In essence you have covered it. We need to plan A done, trying to lock in these price paths so at least there is some price certainty for those customers. The challenge for us is most of these businesses are commodity-based. They have a strong alliance on the level of the Australian dollar. That to some extent is out of our control. But the things that are in our control are reliability, level of service and price. It is interesting because different large industrial customers have different reliability. Some require 100 per cent, some have some have some flexibility in that regard.

Mr BOOTH - Given the minister has vaguely talked about other plans, attracting businesses and all those things - and it would be terrific if he can do it - but in terms of a plan B -

Mr GROOM - It is important.

Mr BOOTH - Of course it is. But it indicates that the Government is aware and TasNetworks are aware that a MI will go eventually at some time and you have to have a plan B, which is what I am getting at. If you do not have a direct plan B that could consume 30 per cent, as a figure of the grid tomorrow, what is the plan B in terms of grid stability, setting aside the financial cost?

Mr BALCOMBE - It has very little impacts on the stability of the grid. It is more of an industry issue.

Mr BOOTH - You do not think there is any need for further systems integrity - protection systems and so forth?

CHAIR - Mr Booth, you can come back to that if you have not finished.

Mr BOOTH - He is halfway through. Just finish that one, Chair, and I will be done on that.

CHAIR - I do need to move on. You can come back to that line of questioning.

[2.30 p.m.]

Mrs RYLAH - Could the minister provide an update on bushfire mitigation and the preparedness of TasNetworks as we run into summer?

Mr GROOM - This is another very strong focus of TasNetworks. They play a very important role in making sure they are acting responsibly in mitigating bushfire risk. They also play an important role in responding to bushfires. It is a very significant focal point for the business. I know they have embarked on specific activities in anticipation of summer and I understand that work is on track.

Mr BALCOMBE - One of the things we have done at TasNetworks is we have recently undertaken a review of the way in which bushfire risk is managed. Historically the risk assessment has been more based on our likelihood of starting fires as opposed to the consequences of a fire starting. As a result of that, we have developed a new bushfire consequence area, an area of high consequence in the south-east of the Tasmania. It is predominated on a hot northerly and what happens is the hot northerly generally travels down the state on a north-south line and the risk is if you get the end of westerly you have a very broad fire front. With the high consequence area we have a difference in approach. As a backdrop to that, we have been working with the Bushfire and National Hazard Cooperative Research Centre on bushfire preparedness and they are saying in general is that the bushfire hazard this year is normal, apart from the east coast. Normal means there is still a chance of starting a bushfire but from the point of view of the soil dryness index, particularly on the central east coast, it is particularly dry so we have heightened our activities there.

We are preparing the business for bushfires and we have a number of management practices and progress reporting. Essentially we produce a bushfire preparedness index and the plan is to have that index at zero by 31 December. That is a month earlier than has traditionally been done within Aurora and Transend because we are cognisant of those increased risks on the east coast with the new lens we have on the risks with regard to this high consequence area. We have an upgraded management regime so we have more ground-based inspections, we have introduced things such as thermalinity, looking for hot conductors and hot joints, and we have also had some aerial inspections undertaken. As well as assessing the condition of the assets, it has also been a chance to have a look at the vegetation arrangements. Where these issues are identified as part of these inspections, we then make an assessment as to their potential - whether they are high, medium or low. The high ones in particular we are planning to mitigate by 31 December so we reduce that potential of fire.

We also do our normal cyclic program on vegetation with rural distribution feeders and transmission lines. We have done some pre-summer vegetation inspections and are out there looking at rectification of any encroachments. I was recently down on the Tasman Peninsula and noticed there was some work that needed to be done there and that has been pushed through.

Mr GROOM - You also have the new poles down there.

Mr BALCOMBE - That is right, the pole are concrete so we have some redundancy in the system as well there.

Probably another interesting thing is our zero-harm sessions. Zero harm is about the safety of our people and zero harm to the environment. One of the things we did is run some education sessions with our fieldworkers in particular about bushfire mitigation. For instance, we do a lot of rural work and some of the new heavy equipment have a couple of catalytic converters under the vehicles. They get very hot, so we are discouraging our people from driving through paddocks on those high bushfire days. We have also trained our people to be more aware and prepared for bushfires, making sure that if they are going to a high-risk area in those times of fires - we hope they don't but sometimes we might have to go into prepare lines - they have escape routes and things like that. We are taking it very seriously.

Mr LLEWELLYN - The chairman made some comments about the good progress with respect to the combining of Aurora and Transend and the saving of some \$25 million, and then the CEO made some comments about trying to reduce the burden on consumers by looking at fixed-term contracts, particularly with the major industrials and so on. There is another aspect from a TasNetworks point of view that one would need to consider in the equation and that is the return to the shareholders. I notice in the forward Estimates that we have figures like \$81 million, \$87 million, \$78 million in the out-years, together with your taxation equivalents and so on. To maintain the service level and the maintenance of operations, obviously the ask of government on dividends is an important element also. What discussions have you had with the Government on the figures that have been placed in the budget paper in the out-years? Can you manage the level of the dividend return to the state, given the other comments you have made?

Mr NORTON - The way we deal with the Government is that we give them our estimates of what our revenue and expenses will be. The ones in the forward Estimates were obviously determined before we were cognisant of the extent of cost savings so there will be a revised set of numbers that will go to the Government.

Mr GREEN - Just for the layman's perspective, will they be up or down?

Mr NORTON - The revised set of figures will be the reduced cost numbers that I put in. There will also be some impact on revenues. We have not spoken about revenues yet, but our revenues are down somewhat this year on budget basically because of the load not being at the levels. It sounds like an excuse, which is exactly what it is, but the revenue estimates were effectively put together before we ran the business, so we think the estimates on load are probably more optimistic than they should have been, so we will see a reduction in revenue for this year, but our cost reduction will offset that. We will see a pretty steady return on the Government's set of re-estimates as a result of these costs.

Mr LLEWELLYN - There is no dividend payable in this coming year 2014-15, but in the three out-years \$81 million, \$87 million, \$78 million seem to be pretty big figures, taking into account the decision to take a bigger proportion of dividends.

Mr NORTON - We do not anticipate the level of dividends we are projected to pay to the Government will jeopardise our capacity to run the business in an appropriate fashion.

UNCORRECTED PROOF ISSUE

Mr GREEN - On similar lines, your capital expenditure program on infrastructure has come off significantly. Is that a major factor regarding the savings you have made? In other words, the numbers of employed you have engaged?

Mr NORTON - Not the re-estimated numbers I mentioned. The capex reduction in our budget, compared to the previous, was predominantly because the build Transend did was finished a year or so ago. Some of the \$8 million that we talked about probably flowed through.

Mr GREEN - Is it a conscious decision you have made since coming to the job to reduce the amount of capital expenditure? In other words, they are jobs which would have been undertaken that you have decided not to do?

Mr NORTON - Yes, there has been some re-adjustment of capital -

Mr GREEN - Can you explain what they are?

Mr NORTON - We could get you details on that.

Mr BALCOMBE - They are minor in nature generally. Some of it is timing. The capital profile for transmission in particular was quite steep. The last revenue determination went from 2009 to 2014 so the first three years of that were quite heavy. Waddamana-Lindisfarne was completed over that time and was a significant investment of \$70 million to \$80 million. As some of those demands forecast did not emerge Transend flattened off its plan for implementation expenditure. So the capital expenditure we are focussing on is more about replacement and refurbishment as opposed to augmentation of the system.

Mr LLEWELLYN - I seem to recall certainly with the distributor element, distribution lines and so on, the new connections were an important aspect of a lot of that.

Mr BALCOMBE - Yes, and a lot of that is customer driven. So if we are seen to pick up an economic dividend the customers will drive that. From the point of view of distribution augmentation you would probably see that in areas such as Kingston, where we are starting to see some expansion of the population. Alongside that Aurora planned the new Summerleas substation going in there, so it is to deal with the future expansion. Where we continue to see expansion on the distribution network there will be some augmentation but it will be minor. We are in the process of doing the next revenue determination for the distribution system. We are in the early days. What we have on hand at the moment is the final two years of the existing distribution determination which takes us through to 2017.

Mr GREEN - The reason I asked you is that at various forums the minister and I would have attended we hear some of the major industrials say some of the expenditure, particularly with regard to switch gear and et cetera, they argue was excessive for the system. From my point of view in the past, it was all about the age of the equipment and various other things. Has there been, as a result of work on a statewide energy strategy, a change in your view regarding your capital expenditure programs?

Mr NORTON - No, I do not think so. We certainly have not cut capital just to save costs. It is a balancing act and you have to spend capital wisely. I am involved in a number of infrastructure businesses and you are custodians of assets for the long term. I can deliver you a huge profit tomorrow by not spending anything on capex.

Mr GREEN - Once upon a time the reliability was front and centre.

Mr NORTON - Reliability is critical. Maintaining the assets for the long term is critical. There is always scope when you re-appraise your capital program to say do we need this now or next year?

Mr GREEN - So it is not a government policy change?

Mr NORTON - No.

Mr GROOM - In fairness the Government has never suggested there is some dramatic shift in the capital works program. We have been long on the record suggesting there needs to be very prudent judgments but we recognise there has been a shift in some of the forward planning on capital investment. We have seen displayed here today and what is very reflective of the approach of TasNetworks, this new company, is it has a very strong focus on prudent cost management. It has been evidenced with the very significant savings that have been identified.

[2.45 p.m.]

In addition, we have seen a very strong commitment to customer outcomes. The work Lance was referring to in working with major industrials to find a win/win that can secure a future for major industrials in Tasmania and deliver good outcomes for Tasmanian power consumers and Tasmanians more broadly is a very important part of the approach of TasNetworks. It is very consistent with what the energy strategy is about.

Mr GREEN - Chair, has there been any operational impacts as a result of over 100 people leaving the organisations?

Mr NORTON - I will let Lance answer that question but I would like to make one follow up in response to your earlier question. I have been involved with the electricity industry in Tasmania and nationally for 20 years. I have seen what has happened in other states and I know what is happening in Tasmania. I am not aware of Tasmanian governments, Liberal or Labor, intervening for dividend purposes on capex decisions made by those businesses. That is different in some other jurisdictions and they have got into a lot of difficulty, a couple in particular.

Mr GREEN - That is true, but there been just a lot said in recent times. I recognise that the MIs are under pressure and sometimes things are said along the way.

Mr NORTON - No, no, I am not having a go at you. I am just reiterating that,

Mr GREEN - There is a whole of energy strategy on the books here that is going to deliver big things for the state, according to the minister. I am just trying to ascertain the various aspects of the,

Mr GROOM - I will tell you one. It is going to establish a pathway and a key part of that is working in partnership with the MIs. The way you described that it is almost like you think the MIs are the enemy. They are not the enemy.

Mr GREEN - No, I don't. Not at all.

UNCORRECTED PROOF ISSUE

Mr GROOM - Sustaining MIs in Tasmania is critical to keeping downward pressure on power prices for households and small businesses. It is fundamental to the future of this business.

Mr GREEN - Minister, sometimes things happen like, for example, at a national level they decided to exempt the aluminium industry and then all of a sudden the rest of your MIs react, which makes you react in a different way again. Remember you endorsed it with respect to the aluminium industry and then once Nyrstar and others started to say well what about us,

Mr GROOM - Are you talking about the RET?

Mr GREEN - Yes.

Mr GROOM - You are not paying attention, Bryan. I have been arguing for exemptions for Tasmanian major industrials consistently.

Mr GREEN - Yes, across the board. What I am saying to you is it is all in or none and that is the point.

Mr GROOM - We need to secure a future. That is what will deliver good outcomes for Tasmanian customers.

Mr GREEN - And in the end somebody has to pay.

CHAIR - Order.

Mr GROOM - You need to pay attention.

Mr GREEN - You endorsed Southern Aluminium but then you changed your mind.

CHAIR - Order. Before we go to Mr Brooks.

Mr NORTON - There is still an outstanding question.

CHAIR - Yes, sorry about that. Before I go to Mr Brooks to finish off Mr Green's original question.

Mr BALCOMBE - The context is that between Aurora distribution and Transend there was about 1 200 employees and we commenced operation with 1 020. One of the challenges the board put to me was prove that we can run the business with 1 020 people. My perspective is that we have. I suppose from a point of view of within that 1 020 we have been carrying quite a few vacancies which we have not filled. We have been trying to fill a few jobs around the business at the moment but overall we have been comfortable with the way the business has coped with the new structure. As we populated, particularly the Maria Street premises that we assumed from Transend, we have co-located those teams that work very closely together so we have created a lot of synergies. We have been able to put all the customer advocacy people together with Mike Paine's customer service team. We have the finance guys very close to the IT team with whom they work very closely. We have a new model around collaboration and sharing information across the business.

Mr GREEN - So no impact on servicing.

Mr BROOKS - I note the recent draft decision from the AER in respect to TasNetworks transmission determination. Can the minister indicate what impact this is likely to have on power prices for Tasmanian consumers?

Mr GROOM - I was very pleased to see the recent AER decision on transmission which identifies an 18 per cent reduction that has already been passed on, as I understand it, then a 5 per cent reduction for next year and 2 per cent for the subsequent three years. This is another example of downward pressure on power prices which can be very important for providing additional relief and I think, more importantly, is now emerging as a trend in power prices. I think it is very important for both the household and small business segment of the market but it is also important obviously for larger businesses as well so I was very pleased to see that outcome. I also acknowledge - and I think I am right but correct me if I am wrong here, Lance - that the AER actually accepted TasNetworks proposal.

Mr BALCOMBE - Largely accepted.

Mr GROOM - Yes, I think that was a bit of a pat on the back for the company in terms of getting that pitch right. Do you want to expand on that?

Mr BALCOMBE - To some extent we have covered it. There is a couple of pleasing aspects to the determination. They approved our efforts and obviously this has been a long process. We inherited the back-end of this. Dan and I were fortunate enough to participate in all of Transend's board meetings since my appointment in October last year where the revenue determination was a key issue on the agenda for the Transend board and certainly we were able to have some input into the outcomes, but it is more the costs and the capex. Capex in the last revenue period was \$575 million and it is now down to \$247 million, so there is a lot less augmentation in the system.

We have seen operational costs reduced from \$247 million to \$218 million and the pleasing thing alongside all of this is that the AER commended the business on its customer engagement it undertook with going out and talking to customers about transmission pricing in particular. It is somewhat unprecedented to have this situation where we are going back to our board in December with a short paper effectively accepting the AER's draft decision. The only thing that remains open is that in March or April next year we will have to lock in the weighted average cost of capital because that is the last time it will get locked in so it is still somewhat of a place-holder. If what we are hearing in the last couple days is correct, that there is potential for further interest rate cuts, we could see further reductions in prices.

Mr BOOTH - What is your plan B with regard to the loss of an MI? I will follow that up with a question as to what you would do about grid stability if you lost, say, 30 per cent of the grid. It is my understanding that there is an ability to maintain frequency control if you lost a section of that grid. At that one point in time you certainly couldn't but you could presumably manage in the long term by some further SIPS work or something.

Mr NORTON - There are two issues here. Obviously there is the revenue issue, and we have touched on that, but in terms of good stability we would have enough forewarning and technical capacity to manage the loss of that load so we don't believe that would be a critical factor in terms of managing the transmission system.

UNCORRECTED PROOF ISSUE

Mr BOOTH - Have you planned for other load-shedding in one way or another to be able to keep it stable?

Mr BALCOMBE - I think the key point is that we do not provide frequency control, the generator provides frequency control. It is a service provided by the market through generators. We provide the -

Mr BOOTH - But you do through SIPS. We had advice from John Lord a few years that in fact he had invented that SIPS system and Transend was very much involved in that.

Mr BALCOMBE - SIPS?

Mr BOOTH - Yes, system integrity protection schemes.

Mr BALCOMBE - That is around Basslink so that is to deal with trips on Basslink where we get customers to shed load.

Mr BOOTH - Yes, but you do that?

Mr BALCOMBE - No, we don't. The customer sheds load; we oversee the system.

Mr BOOTH - Yes, but you organise the SIPS. That's all I'm saying, so don't mislead the committee.

Members interjecting.

Mr BALCOMBE - I'm not trying to mislead the committee.

Mr BOOTH - Well, to clarify, you said you don't and now you say you do.

Mr BALCOMBE - No, we don't operate it personally, we oversee the system.

Mr BOOTH - You oversee the system, exactly.

Mr NORTON - AEMO actually controls the system.

Mr BALCOMBE - Sorry, I am still trying to understand the question.

Mr NORTON - I think the question is if you lost, let us say Bell Bay Aluminium, which is a large load, to what extent would that impact on the ability to manage the special protection system?

Mr BALCOMBE - They are a customer who provide tripping capacity, so we would have to see if we could get someone to replace that. That is a service that other customers can offer. My understanding is that customers may be paid for that, so it is a matter of finding other customers who can provide that tripping capacity and understanding where you might need that on the network without Bell Bay Aluminium. I am not a technician, Mr Booth, but we can take it on notice and provide you with a bit more information.

Mr BOOTH - That would be handy just to frame it. That is what I was getting at, rather than specifically talking about a customer, but certainly Bell Bay Aluminium performs an incredibly

UNCORRECTED PROOF ISSUE

important part of that system stability and if you lost that particular MII put it to you that you would have some big problems trying to stabilise voltage unless you had a fairly long lead time and a whole bunch of other large shuttle loads you could turn on and off.

Mr NORTON - I suggest that we come back with a response that answers those questions.

Mr BOOTH - There is a major contradiction, minister, in what you just said a moment ago with regard to the response we just had now from the business in that you said that the major industrials are critical to the future of TasNetworks.

Mr GROOM - Tasmania.

Mr BOOTH - No, you said TasNetworks.

Mr GROOM - They are pretty fundamental to the business but they are critical to Tasmania. That was the point I was making.

Members interjecting.

CHAIR - Mr Booth, you have asked the question.

Mr BOOTH - *Hansard* will reveal what you said. I thought you said it was critical to the future of Transend, which is what I base my next question on.

Mr GROOM - No, they are important to TasNetworks, which is why -

Mr BOOTH - Okay, that's enough. If you're not saying they're not critical to TasNetworks -

Mr GROOM - If I can be afforded the opportunity to respond -

CHAIR - I would ask Mr Booth to allow the minister to answer the question.

Mr GROOM - Mr Booth, you are deliberately misleading here. What I said was that the major industrials are critical to the future of Tasmania. Obviously they are important -

Mr BOOTH - If that is what you said, that is fine, you have now clarified that.

CHAIR - Mr Booth, you have had your chance to clarify it a couple of times and the minister has come back with his response, so we will move on.

Mr BOOTH - One more question.

CHAIR - No, I will go to Mr Green now because I need to balance up the tally.

Mr GREEN - So we have some references into the future, it would be good if you could allow us to understand what the average reconnection times for unplanned outages have been since taking over, particularly later in the year?

Mr BALCOMBE - I would have to take that on notice.

Mr NORTON - Compared to Aurora's?

Mr GREEN - Yes, so we have some sort of benchmark.

CHAIR - I just remind the committee that questions taken on notice need to be put in writing to the secretary so we know what is going on.

Mr GREEN - To the secretary of the committee?

CHAIR - Yes. It is fine to say that we can respond, but the Standing Orders are that if there is a response needed it has to be in writing to the secretary of the committee so we can keep everything above board.

Mr GREEN - Thank you for that, Chair, and we will endeavour to get that soon, but it is really to provide a benchmark, particularly as a result of late September.

With the merger obviously you took over a fair proportion of the assets Aurora once had. There has been a lot said about the merger of the business and the cost potentially of full retail competition in Tasmania. You have taken over some assets - software and other equipment - that provides for full retail competition in the Tasmanian network. Can you allow the committee to understand the proportion you have taken over and what it does? Why was it necessary to prepare in the first place?

[3.00 p.m.]

Mr NORTON - Under full retail competition, as you well know -

Mr GREEN - I am trying to educate the bloke next to me.

Mr GROOM - You might also want to ask whether they have passed the costs on?

Mr NORTON - I will get to that.

CHAIR - Order, Mr Norton has been asked a question and he is attempting to answer it, so please allow him to do that.

Mr GREEN - I am trying to be civil about it, but in the face of some of the rubbish we hear from time to time, it makes it very difficult. I would love to know what proportion you have taken on and why it is so important that we upgraded the software so as to enable full retail competition with distribution.

Mr NORTON - The distributor needs to be able to deal with, potentially, multiple retailers and needs assistance to enable connectivity and information data flows from those retailers to the distributor. For instance, with customer churn, which tends to occur in the other jurisdictions, a retailer rings up and says, 'Mr Green is my customer now. He used to be a customer of so-and-so'. The distributor needs to be able to deal with them and transfer the metrology and so on. It cost \$34 million in Aurora to develop that system. We had a capacity to seek pass-through to customers and one of the first decisions the board made was that it would not go that route. Whether the AER would have allowed a pass-through is another matter, but we absorbed those costs of \$34 million.

Mr GREEN - So the investment was a prudent investment?

UNCORRECTED PROOF ISSUE

Mr NORTON - It was necessary to have a capacity to handle multiple customers. You may recall that the decision Aurora made to develop that was well before the retail sale got under way. It was effectively a pre-condition for other retailers that the distribution business had the capacity to appropriately deal with them as customers changed.

Mr GREEN - Correct.

Mr GROOM - You sound to be desperately trying to defend your legacy - \$34 million was not passed on.

Mr GREEN - Yes, that is right.

Mr NORTON - It was necessary to do it; there is no doubt about that. I cannot tell you whether it could have been done for \$25 million, or whatever.

Mr GREEN - I know it sounds a bit silly, Chair, but you had to sit through the Estimates to understand why I am asking the question.

Mr GROOM - It would have helped if you did not botch the sale.

Mr GREEN - Did we? But you are just sitting back and watching now; you are not doing anything.

CHAIR - Order, gentlemen. Mr Norton is answering the question.

Mr NORTON - It was necessary to have a system to handle full retail contestability.

Mr BOOTH - This is a question, through you, minister, but it will be to presumably Mr Balcombe. In an exclusive interview in the *Mercury* in August this year you indicated you felt cutting the price of tariffs paid to Tasmanians with solar panels would level the playing field and lessen penalties on those who cannot afford to install solar panels, saying that those with solar panels were being subsidised by those without. Given those comments, could you expand on them? How much do you think the tariff should be capped at?

Mr BALCOMBE - I will answer the last question first - I do not know. One of the things we are looking at is our overall tariff strategy. If you look at the current tariff strategy, it is a tariff based purely on consumption. The way we build the network is around capacity; so we basically build the network to meet the peak. The market and the AEMC and the AER are suggesting there should be a move to more cost-reflective tariffs.

Mr BOOTH - Like a sliding scale, for example.

Mr BALCOMBE - Take my house, for example. I had three young sons at home until recently - 20 minutes in the shower, electric heater on, music blaring - and I know I contribute a fair amount to the peak. The lady next door with her one son does not contribute too much to the capacity, but we pay the same tariff. People who use more capacity in the system should pay for that utility.

Mr BOOTH - A time-weighted average, you mean?

Mr BALCOMBE - You might take five signals a months to say, 'What is your highest average capacity utilisation?', and then pay a tariff based on that. But we need the metrology to do that. We need smart meters and things like that, which I will come to. The second element is in regard to solar.

Mr GREEN - Could make a comment in the context of that question then, with people going off-line to the extent that -

Mr BOOTH - Chair, this is becoming a bit habit-forming. Mr Green is hijacking my question and then it does not come back to me.

Mr BALCOMBE - Tasmania is unique because it has a winter peak as opposed to a summer peak, as mainland states do. We currently have about 78 megawatts of solar connected to the grid in Tasmania. The challenge for solar is that on a cold Monday morning on a school day, when we get our winter peak, the solar guys do not contribute any energy to the peak and they still utilise that same amount of capacity as I do or anyone else does. Notwithstanding that, they still utilise the network from the point of view of putting energy in and taking energy out. What we are saying is that anyone who has solar in Tasmania ought to be paying for the use of the grid in accordance with how much capacity they utilise. It is to do with that cost-effective tariff.

There is a substantial amount of cross-subsidisation in our tariff arrangements at the moment. It is going to take us some time to transition through to this. One of the things we have to do is engage with our customers as part of that process. Subsequently to that article in the *Mercury*, I have met with the solar people and gave them some context about what I was talking about. They developed some understanding of that. This will probably be a three or four-year progression as to how we might deal with that.

Mr BOOTH - The Greens' energy position is that there should be a sliding tariff. Following on from what you are saying, a person who had a battery storage connected to their solar cells, and was able to put it back into the grid at that peak time to reduce the need for additional transmission, ought to be paid a higher price as someone who does not have that.

Mr BALCOMBE - From a point of view of feed-in tariffs, that is a policy question. At the moment, our business bears the cost of the feed-in tariffs.

Mr BOOTH - I am just pointing out that if you reduce the burden by providing electricity in peak times, then that would be of benefit to the grid.

Mr BALCOMBE - The issue at the moment is that people on solar are still contributing to the burden on the grid.

Mr BOOTH - But if they had batteries and the technology -

Mr BALCOMBE - That is a different paradigm altogether.

Mr LLEWELLYN - In relation to the increased impost of government on dividends. It is my concern that that is a policy decision that has occurred since you became TasNetworks. Even though you gave me assurances that you will be able to fulfil that obligation, 81, 87, 78 in the 2015 to 2018 year spans, it still is of concern to me that additional impost may well affect services. I want you to be frank and open with respect the comment on that matter.

Mr NORTON - I am always frank and open, Mr Llewellyn - you know me.

Mr GREEN - It makes it hard to run reasonable arguments when you cannot get an honest assessment of things.

Mr NORTON - I would like not to have any dividend but that is not what we are here for. We are here to give a return to our owners who are ultimately the taxpayers of Tasmania.

Mr LLEWELLYN - It was a policy change.

Mr NORTON - It was a policy change but it was not a policy change which has given us concern that we cannot adequately run the business and maintain service level quality.

Mr LLEWELLYN - All right. That is a fairly succinct response to that.

Mr GREEN - In the three months that the control room has been operating under the new staffing levels can you confirm whether or not there has been an increase in high voltage switching accidents?

Mr BALCOMBE - I do not have any knowledge in increasing high voltage switching accidents. We would certainly recall those as significant incidents and I am not aware of any.

Mr GREEN - Okay, I have advice that there has been.

Mr BALCOMBE - Where did you get that from? I am happy to take the question on notice but certainly from the point of view of our reporting through to the board we are not aware of it.

Mr GREEN - It is important. Is it true that Transend received a fine in recent times of over \$100 000 for not reporting outages, as per its obligations under the national energy customers' framework?

Mr NORTON - Transend?

Mr GROOM - TasNetworks or Transend? Are you just making this up?

Mr BALCOMBE - I might be able to help the previous minister, Mr Green, with that. Aurora and TasNetworks are now obliged to comply with the national energy customer framework.

Mr GREEN - We were one of the two states.

Mr BALCOMBE - In essence Aurora chose to go early and that was a significant challenge because there is a very high bar with respect to compliance. One of the requirements under that framework is you must advise life support customers if you are going to disconnect them for a planned outage and give them four days notice. There are two incidents currently on foot. One breach by Aurora we have inherited and may result in a fine, which could be as much as \$40 000. There was another incident, a breach and I am thinking back in July, and that was the result of an outage in an aerial area but that outage was also connected to some underground works. The underground works drawings were not accurate. It did not identify whether there was a life support customer on the end of those underground works. At this stage we are obliged to advise the AER

UNCORRECTED PROOF ISSUE

that we have had a breach and that is still under consideration by the AER. It is a very difficult area to manage because a lot relies on the accuracy of your drawings. The aerial work is quite easy to deal with because you can see it but as soon as you go underground you are relying on the accuracy of the drawings.

Mr NORTON - Aurora had previously received some fines, going back a couple of years. You will recall that?

Mr GREEN - Yes, I had some advice on that. There was another one and on the advice I had there was a fine of \$100 000 but I can see that is not correct, that is fine.

Do you want us to talk about the training? Can you explain, particularly while we have the Mary Poppins of the Tasmanian Parliament, with us, why it was necessary to spend - according to the freedom of information documents - \$2 136 on umbrellas for the number of people attending?

Mr BALCOMBE - I suppose you are referring to Tarraleah?

Mr GREEN - Yes.

Mr BALCOMBE - We visited Tarraleah in the middle of winter.

Mr GREEN - Was it raining?

Mr BALCOMBE - It rains, it snows.

Mr GREEN - \$76 per person.

Mr BALCOMBE - You are presuming that we did not have a few umbrellas left over Mr Green, so just to be clear. Tarraleah is quite a dispersed site. It was our first meeting of all our leaders together so why not take the opportunity to keep our people dry as well as give them a memento of our first meeting together.

Mrs RYLAH - Electric vehicles are an emerging technology; is TasNetworks looking at opportunities in this area?

[3.15 p.m.]

Mr GROOM - It is very important that we look to the future. We spoke before about future trends that might see an increasing number of people move off the grid. It is a rapidly changing environment but there can be opportunities. From a Tasmanian perspective we should make sure we are exploring the potential developments that might emerge with electric vehicles. It is a great thing to be exploring and I know TasNetworks have done some work as have other parts of Government. If I can hand over to Lance.

Mr NORTON - We have obviously got to be looking to the long term, not just the short term. We had a strategic planning workshop with the board and management last week. We spent a bit of time looking at the next couple of years but we also tried to look at further issues around battery technology. We talked about it when Mr Booth was here, the interplay of solar and battery, a very important potential development, and electric cars. We are cognisant of that emerging trend. We have indicated to management that we want to be able to have what you might call research and development. Not in the sense of developing commercial products but we need a capacity within

TasNetworks to understand what is happening, the impact on our business and to try and make sure that we are ahead of the game. When those technologies come in we can play a legitimate role within our charter to facilitate the use of electric vehicles.

Mrs RYLAH - Excellent. Very good.

Ms O'CONNOR - I am interested in exploring TasNetworks approach to upgrading the grid through a smart network infrastructure. I know that a lot of work was done in the previous term of government to develop a smart network strategy. André Botha, a wonderful asset to the organisation who I know has left, was very excited about the capacity of a smart network to delay some of the big infrastructure spends that may be necessary to maintain the network, particularly when there is a lot of distributed generation in the mix. I am interested to know how the smart network is progressing.

Mr BALCOMBE - We are maintaining a watching brief. I suppose one of the things is we are cognisant of working alongside Government as part of its energy strategy. Within the energy strategy there is a continued watching brief on smart meter technology. One of the things we need to be cognisant,

Ms O'CONNOR - It is not just about meters. Meters are one component. I am sorry to interrupt, but as you know there is also the wider grid and the IT platform that needs to be in place.

Mr BALCOMBE - We are currently running a trial of a mesh radio network. That is a communications platform that can operate between meters, between switching equipment, and things like that. I do not have the exact details of exactly where that trial is running, but it has been implemented and tested at the moment. That improves the connectivity and it is as much as metering and switching equipment and things like that. That will smarten the grid and make it more remote controlled for want of a better area. We are also looking at things such as batteries. We are looking at running a trial with battery storage on Bruny Island. One of the things we are trying to avoid is to upgrade the cable between the mainland and Bruny Island so we are looking at a battery energy storage system. We are also looking at other non-network solutions such as diesel generation and things like that. I know that is not particularly green, but,

Mr GREEN - I thought there was diesel generation at Bruny.

Mr BALCOMBE - There is and we are also looking at Strahan, for instance, where it will save us doing an upgrade on the line as well. Other things include peak demand management, talking to our customers about dropping away from the peak. Some of those things will be enabled by technology in some way.

I know you didn't ask, but I might just talk about smart meters. We need to come up with a solution about customer impacts on that because, although from a technology perspective it has been reasonably successful in Victoria, it has had a huge push back from the customer base over there because it was imposed upon the customer base, so we -

Ms O'CONNOR - Yes, and there wasn't a level of engagement with customers early on.

Mr BALCOMBE - That's right, so we want to understand the benefit we are getting out of it. We are doing some work on it but it is a gradual rather than a rapid process.

UNCORRECTED PROOF ISSUE

Ms O'CONNOR - So it's no longer policy of TasNetworks or government to implement a smart network?

Mr NORTON - It is policy from our perspective to pursue smart network technology to try to reduce capex which would otherwise have to be put in place. I think there are smart networks there. If you go to Spain, for instance, and some other jurisdictions, they spend a lot of money on putting in technology. We are taking a more steady approach, doing trials and investigating where we can utilise smart technology, but there has been no change from the André Botha concept that smart networks provide a mechanism for us to use our existing assets better, smarter and not have to put in new assets for people.

Mr GROOM - And this is something we are looking at as part of the energy strategy which will be released this month.

Ms O'CONNOR - I am interested first of all to know how many TasNetworks customers are now on solar. I don't know if it is more than 20 000; it was 20 000 not long ago.

CHAIR - It was mentioned earlier.

Ms O'CONNOR - While we are looking for that information, I have been contacted by constituents who are concerned that when they had their solar installed some time after the fact they were told they would also need a new meter installed at a cost of around \$1 500. Is every new solar customer in Tasmania advised that they will need to install a new metering device? We had new solar installed and we were not but other customers have been advised and some are very concerned about the cost impact of needing a new meter when the meter or the location was never an issue before?

Mr BALCOMBE - If a new meter is required they should be advised at the time as part of the connection process. I think that is all I can say at this stage and if they haven't been we will make sure our customer processes incorporate that.

Ms O'CONNOR - Well, I know of at least one customer who wasn't and found out after the installation that they faced a \$1 500 bill.

Mr NORTON - That shouldn't have happened. If there was a new meter needed they should have been advised beforehand.

Ms O'CONNOR - Is there any recourse for that customer now they have been told after the fact?

Mr NORTON - It is an important issue because one of the areas we have put a lot of attention on is the way our business deals with customers on new connections. It is an area where I think, without damning our predecessor organisations, there is room for improvement and we are currently looking at reengineering the way we do the customer interface on new connections. It may well be that that particular example you put up is an example of where we need to improve our performance.

Mr LLEWELLYN - I wanted to ask a question of the chairman again. What requests has the Government made to TasNetworks to assess future strategic arrangement in the Tasmanian or the National Energy Market or with other Tasmanian market participants, basically the Hydro? If so, who is paying for the strategic assessments and how is that payment structured?

Mr NORTON - The only involvement I can recall is the involvement we have had around the energy policy but I don't believe we have been spending any money getting outside work done in respect of that.

Mr BALCOMBE - It is business as usual for us.

Mr LLEWELLYN - I am talking about as a request from government?

Mr NORTON - I am not aware of any requests from government that we should -

Mr BALCOMBE - Perhaps the only thing we have done is provide a resource to the Department of State Growth on a secondment basis.

Mr NORTON - That was part of the energy strategy. We haven't been requested by the Government to fund -

Mr GREEN - You seconded someone into State Growth.

Mr LLEWELLYN - So that is two people now into State Growth.

Mr GROOM - Yes, assisting with the whole-of-state energy strategy. What we sought to do, very deliberately, was to make sure we are leveraging off the expertise and experience of the energy businesses.

Mr NORTON - We saw it as being in our interests, too, to have one of our people involved in that process.

Mr LLEWELLYN - What sort of level is that person?

Mr BALCOMBE - It is a senior technician, middle leadership level. The secondment ceases, I understand, at the end of December.

Mr NORTON - It was just a short term.

Mr GREEN - On the training, you said in your opening statement you thought the training was very important in bringing people together. With the information that has been provided by the newspaper and ourselves through RTI, it did seem like a lot of money but you believed it was important.

Mr NORTON - The number that was published in the *Mercury* was not correct.

Mr GREEN - I have a lot of figures I can go through.

Mr NORTON - I think it was \$60 000. You have to look at how much that is per head. You could have argued we should have done that at Maria Street rather than up at Tarraleah. I think the notion that Tarraleah was a luxury resort was not accurate. We have a whole lot of information we can give you on our overall training spend. It is a large number. Lance can go through and give you that.

UNCORRECTED PROOF ISSUE

Mr GREEN - In the first place you said it was important but can you confirm that you have cancelled future bookings at Tarraleah?

Mr NORTON - We spoke to the minister after that exercise. We had another similar event planned at Tarraleah and thought in the circumstances we should show good faith and hold that elsewhere, so we did.

Mr BALCOMBE - It hadn't been booked.

Mr GREEN - It hadn't been booked so you didn't cancel.

Mr NORTON - No, but we were intending to do another one up there. I attended both of those for a couple of hours each. I drove up and spoke at the morning session at both of them. I think the first one was probably about 40 people.

Mr BALCOMBE - We did 83 between the two groups. We chose Tarraleah because we had an outage up there so we took the teams up to see the work we were doing in the field and also took the opportunity to take all those people through the Tarraleah power station. A lot of people had not been exposed to seeing a power station so we gave them the opportunity to understand where we sat in the value chain as well.

Mr GREEN - Did anyone from the Government attend?

Mr NORTON - No. I have been in the electricity industry 20 years. I walked into that session, especially the second session, and I was gobsmacked by the number of females in the room. The electricity industry has predominantly been male. Lance and his executive team are 50 per cent male and 50 per cent female, which is unheard of. In that room at Tarraleah I think probably a third of the senior leaders in our business were women, which I thought was a tremendous change from what has occurred in the past.

Mr GREEN - Yes, my question was in the context that your minister abandoned you when it came to the cost, in the same way he did with the previous executive office at Aurora where he was prepared to drag him through the mud.

Mr GROOM - With the greatest respect, Chair, I will say a few words here.

Mr GREEN - You thought it was excessive.

Mr GROOM - I expressed my very serious concern in relation to it and I stand by that and I have expressed that to the company and they know that. The Government has made clear that these costs need to be prudent and defensible. We all recognise that there is an important task to be done here in terms of leadership training but we operate in the context that costs are prudent and defensible. That is the point the Government made clear to the company. The company are showing, I think, as they have displayed here today, that they have a strong commitment to that concept, but that is the point. You opened with the same comment yourself. I think we should all acknowledge here that in the current economic circumstances we need to be very mindful of the perception.

[3.30 p.m.]

UNCORRECTED PROOF ISSUE

I believe Tasmanians have a right to expect their government businesses will be displaying prudence with costs. That is the position of the Government and we have made that clear. It is consistent with the acknowledgements we have had from the company as displayed here today.

Mrs RYLAH - Minister, the issue of self-reads and estimated reads has been raised with me on a number of occasions. Is this an issue TasNetworks is looking at to see if there are any improvements that can be made in that area?

Mr GROOM - I think this might be the dog issue.

Mr BALCOMBE - We read 300 000 meters a quarter - 1.2 million meters a year - and what was occurring at Aurora was that a lot of the meter readers were being bitten by dogs. That may seem minor but I have been on both ends of this. I have been a customer who owns a dog and I have also done a meter round because I wanted to understand what our meter readers faced. Meter readers read between 500-700 meters a day. They have access issues such as locked gates, fences, dogs, sometimes customers - and these people have to make decisions at virtually every front gate they open and any property they enter. Aurora, quite rightly, instituted a policy where if the meter reader could not see that the dog was restrained, the meter reader was not to enter the property. Aurora was averaging 1.1 dog bites a month and it now has none, so the safety of our meter readers is at the forefront. This is creating some customer issues because we are getting many more estimates and we are working through with our customers about how we can do that. For instance, we are making sure we have the right notifications, and that the customer is aware that when the meters are going to be read, they tether their dog. One of the things we are looking at is technology which allows us to narrow down that window when our meter readers are going to call in. But we have to invest in systems to do that and we will only do that where there is a justifiable benefit and we are not penalising the entire customer base to create benefit for our dog owners.

Mr GREEN - Chair, the CEO was going to give me a breakdown of the costs on training. Can he give us a breakdown before we go to the break?

Mr BALCOMBE - Our overall training budget is \$3.8 million as a business. A large component of that is the operation of our training school. Our training school relates to the cost of our field-based employees because they have to go through annual compliance, recertification, safety checks, competencies, live-line training, first aid, et cetera.

Mr GREEN - Have you got new apprentices on this year?

Mr BALCOMBE - We have a few coming. I could not name the exact number, but it is three or four. Part of the training budget of that \$3.8 million is approximately \$3.2 million. Then we have our leadership development and we also have a lot of technical people - engineers, finance people, lawyers, et cetera, who have to undertake their continual professional development. It is a very large training budget but a lot of it is developed by the technical requirements and compliances to run our business and the continued professional certifications we have.

I am happy to give you a bit more detail on the leadership program. Our view is that the leadership behaviours in the business have a big influence on culture and culture has a big influence on people engagement. Happy people mean that you have good external engagement with your customers.

We have designed our own leadership program and there are two sides to it. The first side is developing constructive behaviours in our business - constructive behaviours versus behaviours that are passively defensive - and we are using two tools for that. There is the organisation's cultural imagery, so you understand how your businesses is positioned from an overall cultural perspective and how that business is prepared to take on change. Then, with respect to individual people, they complete what is called a lifestyles inventory and that is about their own ability to lead and adapt to change.

We just about to undertake our first OCI right across the business so we will understand how our people are feeling about how they think they operate in the business. On the back of that we will be running what is called an empowering leaders program. We had our first intake the night before last. At this stage, it is focused on front line leadership. We have people who lead our field teams. Given that they are managing people on the front line, we want to make sure they are equipped to lead those front line people - a very important part of our workforce. Alongside that, it is the ability to have authentic conversations with our people and to give feedback, both positive and constructive, about the performance of people.

On the other side of that, we are also incorporating our business excellence program. We are dealing with the organisational culture as a well as business excellence. We are creating tools and it is a case of learning by doing. We give people a project; these leaders go away with their teams and they report back as part of this leadership program about how they are going with those process changes, incorporating process change into the way they do business.

We think it is very important that we have created that program which deals with business excellence as well as that high performance culture within the one program. Often you see them run in two streams. But we are building that program from within. We have to invest some money in training our people to deliver that internally. That is about \$60 000 and that will be completed by about February. We will be able to start delivering this program fully in-house and it will be a regular, ongoing feature of our leadership training.

The committee suspended from 3.38 p.m. to 3.46 p.m.

Mr LLEWELLYN - May I ask a question in connection with the capital works program? You mentioned, following the central islands new transmission service down into Hobart, that you cannot see much further development in regard to transmission augmentation. I want to ask you a question about the Palmerston to Smithton line and whether you have any prospects of upgrading that service to accommodate the potential wind generating factor in the north-west corner?

Mr BALCOMBE - I will have to take the question on notice. I do not think so.

Mr LLEWELLYN - If not, why not?

Mr BALCOMBE - My understanding is we have had very little approach from people that are in wind farms at this stage.

Mr GREEN - We had that in the past.

Mr BALCOMBE - Yes, I understand that. I will have to take the question on notice to be honest.

We would generally augment the system on the back of customer demand, not customer potential, which is the way I would describe it. If there was a clear need to upgrade that line, based on firm customer approaches, we would probably go ahead and do it. There would be a customer model for doing that as was the case with Musselroe. Musselroe had to connect to the Derby site with the customer paying for the upgrade to the Derby substation up there. We would only do that on the back of something firm, not potential. Our technical guys would have a very good handle on what was needed to connect them online to that area for a transmission system.

Mr NORTON - If you would like to submit that question we would be happy to give you a more fulsome explanation.

Mr LLEWELLYN - I will contemplate whether I will submit it.

Mr GREEN - It was \$65 000 for the Tarraleah training and you said there was another one on top of that so what was the total cost of the two?

Mr NORTON - The information we provided was in two forms. I think they were added together so I think the headline number in the *Mercury* was \$100 000 but the actual number was about \$60 000 but we have had subsequent training.

Mr GREEN - You would have that in-house basically?

Mr NORTON - Pretty well. We went to Rocherlea the last time.

Mr GREEN - Talking about in-house, from an energy use point of view there was a lot of discussion some time back and electric cars have been mentioned as one area but data centres is another. Is the business looking at providing data centre opportunities in the future, as predicted in the past?

Mr BALCOMBE - We operate two data centres. One in Cambridge and one at Derwent Park and they have available capacity to expand. We have just been through our telecommunications strategy report and there are racks available. In order to accommodate more customers and equipment we have to upgrade air conditioning and such like. We will only do that on the back of customer demand. We have a couple of live opportunities at the moment where we could see increased usage of the Derwent Park site in particular.

Mr GREEN - There was an argument against private investment at the time that the government effectively contracted to provide a facility. Do you see it as still a role of the business to actively engage in this market?

Mr NORTON - We do not see ourselves as being predominantly a commercial provider of data centres. Both those particular data centres were built by Aurora for their own purposes. If you are building one and you have extra space, and there is a market demand for that space, then we feel that is a legitimate use of that data centre. We are not just going to go out and speculatively create data centres and try and sell the capacity to the private sector.

UNCORRECTED PROOF ISSUE

Mr GREEN - It was as a strategic approach to try to ensure, based on falling demand, increase demand for energy use through making Tasmania an attractive place to invest in data centres.

Mr NORTON - Certainly we would like to see that occur if it increases the energy market.

Mr GREEN - So you would be prepared to vacate that space. Is that what you are saying?

Mr BALCOMBE - Derwent Park and Cambridge are not on the scale that we are talking about from a point of view of a Google or someone like that.

Mr GREEN - Yes, in terms of base load.

Mr BALCOMBE - There has been some work, as part of the overall strategy, and one of the things that is attractive with Tasmania is its cooler climate. The air conditioning load to keep these things cool is lower but we have high labour costs and other things which, to some extent, might offset any advantages. We will work with the Co-ordinator General, our colleagues at Hydro Tasmania and State Growth, as part of any potential opportunity there.

Mr GROOM - More broadly, the Government is looking at initiatives to try and attract more of that type of load. As you correctly point out it is a potential opportunity. I think we have a lot to offer because of our weather and our clean energy. I think there is a value proposition to be put and we are proactively pursuing that.

Mr BROOKS - A number of constituents have raised the cost and process associated with network connections. Could you provide the committee with some details about what plans TasNetworks has to address some of these issues? I can go to more specifics if you wish.

Mr BALCOMBE - There are a couple of layers to network connections. There is the small end, the residential end, which are more high volume but lower cost. Then there is the large end of town where we have, for instance, just completed connection work to get the new Brooke Street Pier ready for connection. We have done our work and as we understand it their technicians have to hook up. There are a couple of issues there. First is the overall cost of connection. If you look at a Brooke Street Pier it is quite an expensive connection. Talking about cross subsidisation until July 2012 the costs of connection were effectively subsidised by the entire customer base. There was a set amount of fees for different types of connections, which did not reflect the true cost of connection. These connection costs are now much more cost reflective.

Mr GREEN - Other than for irrigation.

Mr BALCOMBE - Other than irrigation. That is exactly right. But the issue is that there has been some frustration expressed by customers about multiple touch points, the length of time it takes for it to occur. We have to do the design work so, as the chairman indicated earlier, we have a program running about how we can improve the overall connection arrangements. There are some new regulatory requirements looming in 2017 about cost of connections. We are examining that now from a point of view of the potential future energy regime, but overall there is an area for us to streamline the process and make it more timely.

We have been doing a lot of engaging with the Real Estate Institute, the Housing Industry Association, electrical contractors and chambers of commerce all over the state because often what happens is people go off and get their planning permits, building permits and plumbing permits and

all that sort of thing and they forget to leave their electrical connection off. Basically that means we are left off the critical path and we become the critical path because they think about electricity connection late so potentially we become the hold-up to getting that development finished, so we are doing a lot more work with these associations about early engagement, in particular. When you go and get your building permit you start working on your electricity connection as well, so we have been doing a lot of work in that space.

Mr GREEN - When did you say the regulatory arrangements were coming in?

Mr BALCOMBE - In July 2017.

Mr NORTON - I think the bottom line is that we are trying to do a reset on how we deal with connections with the customer engagement side of things, but we are also going to relook and make sure we have not gone too far in terms of cost-effective pricing and added things in there that should not be there.

Mr BROOKS - The feedback I get predominantly would be from smaller developers putting in subdivisions, two or three or 10 lots. Their concerns have been around not only the connection time or the supply time frames, but more importantly around the cost structure. As you mentioned there was a change in the assessment in 2012 with Aurora where it went from \$800 on average to a significantly higher amount. Even now some of the feedback the community has been passing on to me and my colleagues, no doubt, is around that pricing structure. I was very keen to see whether you are aware of it and what the considerations are.

Mr BALCOMBE - Yes, we are aware. There are a couple of layers to that. One of the things is some of these services are contestable, but in order for them to be contestable you have to create a contestable market. To our understanding there is one other player offering contestable services for overheads. We have recently trialled some contestable arrangements for some underground work. We are trying to work out how we build that market. I suppose one of the things in regard to our strategy going forward is understanding the role we want to play in the connections process because one of the things we could do is to say that for certain big-end connections we could choose to make that fully contestable and not participate in that market. One of the things we are able to provide is that we get good leverage on pricing, particularly for equipment and pieces like that, so to some extent our place in the market also hinders contestability, but we will examine that and look at opportunities of how we can create that.

Mr LLEWELLYN - I want to know whether the program was in place for orderly undergrounding of overhead transmission distribution lines, particularly in country towns. Are you continuing with that program or do you intend to continue with that sort of practice?

Mr BALCOMBE - From my perspective I think it unlikely that we would continue with that. It is just the cost of undergrounding, the capital cost of digging the trenching and undergrounding the existing overhead structure, provides little benefit for the customer and costs a lot of money. With the increase -

Mr LLEWELLYN - It is almost a community service obligation in a sense, because the aesthetics of small country towns are damaged by large overhead constructions, transmission lines and so on.

[4 p.m.]

Mr NORTON - You should see the view from my house.

Mr LLEWELLYN - You ought to be able to do something about it.

Mr NORTON - I can't; it would be totally inappropriate. In the past I know there has been undergrounding done where they have been particular bird strikes, for instance. Particular areas in the wetlands going back many years have been done underground. If there was a particular case, we could look at it, but we do not have a program to do that.

Mr LLEWELLYN - That is disappointing.

Mr BALCOMBE - Well, it is costly and we have to pass that cost on to someone, so it is either the shareholder or the customer.

Mr LLEWELLYN - Yes, and when you don't have a lot of money because you have the impost by government on dividends and increases in dividends it becomes less of a priority.

Mr BALCOMBE - It is about choices and where you allocate your scarce resources in the end, and the impact on customers.

Mr McKIM - Minister, can I confirm you will be providing to Ms O'Connor the advice on the question she asked earlier around how many solar installations there are in Tasmania?

Mr GROOM - I am sure we can, if you want to put that on notice.

Mr McKIM - Thank you, I appreciate that. Minister, I want to raise the issue of when someone has invested at times up to and perhaps more than \$10 000 putting solar panels on their domestic property. Could TasNetworks run the committee through the situation if that property is sold? I am specifically asking in relation to people who are on the 1:1 feed-in tariff and whether they can take that with them or whether the new owner of the house, who may move in with a certain period of time left on the 1:1 tariff arrangement, gets the benefit. My advice is that there is significant confusion in the real estate sector about this and conflicting advice on this issue is being given to potential purchasers of domestic properties.

Mr BALCOMBE - Our understanding is that the feed-in tariff is grandfathered to existing owners only, so it falls away on a change of ownership of the property.

Mr McKIM - So it falls away for both parties?

Mr GROOM - It doesn't run with the property.

Mr McKIM - I don't think that was the advice Mr Balcombe just gave the committee.

Mr BALCOMBE - It is either way.

Mr McKIM - So it falls away either way? It does not go with the person who signed the contract and has the benefit in their original property and it does not novate over to the new owner of a house?

Mr BALCOMBE - That is correct.

Mr McKIM - Minister, do you think that is a fair policy given that many people have spent up to and potentially more than \$10 000 trying to add value to their property, do something for the environment and save the need for massive remote generation and transmission assets? Do you think it is fair that a simple move of house voids the contract for the contract holder and also does not provide for someone moving into the house to take advantage of the arrangements?

Mr GROOM - I understand where you are coming from with this. We expressed concern when this issue was dealt with by the previous government in relation to sovereign risk in that some people have invested on the back of government representation. I do not think this was unique to the Tasmanian Government; I think it was a national issue where governments broadly had encouraged people to embark in an investment in solar under various policy initiatives. We expressed concern in relation to that when we went through that debate. There was a bit of exchange amongst all parties about what a fairer and reasonable outcome would be, accepting it would not be perfect. The initial period that had been suggested was two years and then off the back of some exchange between the parties it was extended out to five years. That was a better outcome. But, as part of that, a policy decision was made for that grandfathering arrangement to not run with the land. Once the person sells the property, that arrangement comes to an end and the existing solar would have the benefit of the fair and reasonable tariff as set by -

Mr McKIM - Which is about a quarter less than the one-to-one arrangements.

Mr GROOM - That is right. I am not going to gild the lily on this. It is 5.5 cents - significantly less but it is based on fair and reasonable tariff as determined by the economic regulator. I understand where you are coming from but from the Government's perspective, you have to try to find a middle position. At the end of the day, government has to be in a position to be able to meet the cost of this and that was the position where the previous government landed and it is consistent with the current Government's policy.

Mr McKIM - Is this a policy decision of yours or the Government's?

Mr GROOM - We are trying to change the policy position.

Mr McKIM - Yes, but it is not a policy decision that has been made by TasNetworks; that is the point I am making.

Mr GROOM - No. It is the Government's policy position. It was a policy position that was taken by the previous government which we supported.

Mr McKIM - You have no intention of reviewing that?

Mr GROOM - No. It was formerly a Labor-Greens government that considered this issue. But I think all of us have had to try to find the middle space here. I think all of us recognised the previous arrangement was not going to be sustainable into the future. It was a matter of great regret that representations were made to people and made investments off the back of that. But the previous government sought to find a middle position which is to grandfather it for five years and then fall into a fair and reasonable tariff. That is the current arrangement and the current Government supports that arrangement.

Mr McKIM - First, I want to express my disappointment that you are not prepared to have a look at this because I think it fundamentally unfair, particularly as people have invested large amounts of money on this.

I want to go to the real estate sector and I wanted to ask you, minister, whether you or your Government or TasNetworks would commit to confirming the arrangements with the Real Estate Industry Association, REIT, or potentially to individual agents because I have received communications from real estate agents who are unaware of that situation and are concerned they may have provided inaccurate advice to people purchasing houses. It would be helpful for people. It is a big purchasing decision to buy a house.

Mr NORTON - There certainly needs to be clarity of what the rights are.

Mr BALCOMBE - I have just found the fine print - 23 600 installations. The average size is about 3.3 kilowatts.

Mr NORTON - Still increasing. There is 78 megawatts of installed capacity.

Mr McKIM - In contradiction to your projection when you were shadow minister, that we would have a bubble and then no-one would ever put a solar panel on their roof again.

Mr GROOM - That is not what I said.

Mr McKIM - It is effectively what you said. Minister, you have walked away from your pre-election support for the 41 000 gigawatts hours contained in the RET this morning. What impact would a reduction in that target, if any, have on TasNetworks' bottom line?

Mr GROOM - That is not what I said. What I said, and this is consistent with our position from the start, is that the key to the RET is bipartisan support.

Mr McKIM - Labor supports 41 000 and so do the Greens.

Mr GROOM - Ideally, it would be tripartisan.

Mr McKIM - The only thing stopping that is your political party.

Mr GROOM - We continue to advocate for a pro-Tasmanian position on the RET.

Mr McKIM - Is your position to advocate for 41 000?

CHAIR - Order. The minister is trying to answer the question. Please afford him the opportunity.

Mr GROOM - The single most important thing for the RET is a bipartisan outcome. We can describe it as a tripartisan outcome. But that is the thing that will provide certainty. That is the thing that will underpin investment in renewable energy. That is why we have consistently argued for that position.

Mr McKIM - Are you arguing for 41 000 gigawatts in the RET?

UNCORRECTED PROOF ISSUE

Mr GROOM - I am arguing for a bipartisan outcome on the RET.

Mr McKIM - You are not.

Mr GROOM - You can feel good about adopting a purist position.

Mr McKIM - No, I feel bad that you will not stick to your policy.

CHAIR - Order.

Mr GROOM - In the absence of a bipartisan outcome, you present no certainty for renewable energy.

Mr GREEN - What an absolute load of rubbish. It is not a matter of whether businesses would want a bipartisan approach.

Mr GROOM - It is the absolute truth.

Mr GREEN - If this is bipartisan at the state level, take it up with the Federal Liberals.

Mr McKIM - Yes, exactly.

CHAIR - Order.

Mr GROOM - It is the absolute truth. You can take a purist position if you want on this but the truth is -

Mr GREEN - You are accusing us of not taking a bipartisan position against your party.

Mr McKIM - It is your party that will not support 41 gigawatts.

Mr GROOM - Yes, and I will continue to advocate the position for a bipartisan outcome on the renewable energy target.

Mr McKIM - Chair, I will just try to assist the minister. On numerous occasions in the last few minutes he has advocated a tripartisan outcome. I will give him one more opportunity to advocate for a 41 000 gigawatt hour RET target. Are you going to do that?

Mr GROOM - You can take a purist position if you want and you can feel good about taking a purist position. But at the end of the day what you will deliver is uncertainty for renewable energy and what I am after is certainty. I have made it very clear, Chair.

Mr McKIM - I feel bad only because the Liberal Party will not support 41 000 gigawatt hours.

CHAIR - Order. I have had enough of this. The next question.

Mr McKIM - What a load of rubbish.

Mr GROOM - I have made it very clear.

Mr McKIM - You have not supported 41 000 gigawatt hours.

Mr GROOM - You are abandoning Tasmanian jobs, that is what you are doing.

Mr GREEN - No, that is not true at all.

Mr GROOM - It is true.

Mr GREEN - In some ways I am worried that he knows something that the rest of us do not with respect to MIs and he is trying to somehow lay blame on people who have actually got no decision-making powers.

Mr GREEN - He wants a tripartisan position against his own party.

Mr GROOM - I want certainty for the RET and I want a positive outcome for Tasmanian jobs, which is better than you will do.

Mr GREEN - You were prepared to say that you would negotiate on that. That is what you said this morning.

Mr GROOM - No, we need a bipartisan outcome.

Mr McKIM - Yes, but who is stopping that from happening?

CHAIR - Order.

Mr GROOM - What do you want? You want to take a purist position and leave an uncertain outcome for renewable energy.

Mr McKIM - I want you to back in 41 000 gigs like you did before the election.

CHAIR - Order. I am going to hand it now to Mr Green and if Mr Green cannot move on from that particular line of questioning and having an argument against the table -

Mr McKIM - Point of order. Chair, it is not for you to determine the type of questions the committee asks and the topics that the committee asks on. It is not for you to do that, with respect, Chair.

CHAIR - On the point of order. I have to uphold the Standing Orders and arguments are not to be facilitated.

Mr McKIM - No, but the topics of questions are matters for MPs.

CHAIR - It is about questions. I said if Mr Green was going to pursue that line of questioning and keep an argument up then, of course, I would move on to the next question.

Mr LLEWELLYN - You are protecting the minister.

CHAIR - I am not protecting anyone. I am trying to adhere to the Standing Orders and it is the opportunity to ask questions. I know Mr Green is trying to get on with that so I will allow him -

Mr GROOM - Another example of Labor and the Greens working together, contrary to the best interests of Tasmania and contrary to Tasmanian jobs.

CHAIR - Order. Minister, I would ask you -

Mr LLEWELLYN - You want us to work together on the 41 000 gigs but you will not come on board.

Mr GREEN - You will not commit on it.

Mr GROOM - You are not defending Tasmanian jobs.

CHAIR - Mr Green, do you have a question?

Mr GREEN - There has been quite a bit of discussion this morning about the fact that TasWind has been taken off the agenda regarding a development from Hydro's perspective. The focus now would be on another interconnecting cable to mainland Australia so as to ensure that Tasmania can expand its renewable energy opportunities. Has TasNetworks provided any advice to the Government on technical aspects of a potential cable cost and time frames, et cetera?

Mr NORTON - No, we have not but we did have a discussion at our strategy meeting with board and management last week on this issue amongst many other things. Certainly, we see that we should have a role in any discussions or any analysis that might take place but we have not been asked by the Government to do any work on it that I am aware of.

I have actually got an interest in this, going way back, because I did, when I was CEO of the Hydro, make the bold suggestion to the then premier, who was Tony Rundle, that when we split the business, Transend should have a potential role in the cable. But the government of the day decided that they would go and see if they could get a private sector investment to do it, which in a sense they did.

[4.15 p.m.]

However, as we all know, it was basically underpinned by the state via the Hydro in the usage agreement. If the Hydro or the Government is looking at a second interconnector we would like to be involved in that consideration and see what role we may play. It is a government decision as to how we might play that role but we have not done any work on it at this point.

Mr GREEN - There was quite a bit of discussion earlier today about major industrials and the viability into the long-term. If one of the major industrials went, aside from the transmission costs argument, it would leave quite a surplus of energy. In the short term should we be looking at another interconnector to not only expand our renewable energy opportunities but also protect us from a revenue perspective from any closure of a major industrial?

Mr NORTON - This is probably getting outside the TasNetworks sphere of influence but my view is yes. Tasmania, from a TasNetworks point of view and I am sure from a Hydro point of view as well, needs to be looking at what it would do if there was a loss of a major customer and identify what options it might have.

Mr GROOM - And it is. That is the policy position of the Government.

Mr NORTON - As one of the people who initiated the original examination of Basslink, as Mr Llewellyn would well remember, one of the reasons the Hydro pushed for a re-examination of Basslink is because we had gone through a negotiation with Comalco, which I lead. There was a prospect they would leave. We had no alternative but to do a deal with them and at the end of the day I think it was a good deal for Tasmania. One of the drivers of Basslink, apart from managing hydrological risk, was to have an option in case there was a change in usage. Twenty years further on that potential might occur again and Tasmania needs to very carefully look at it.

Mr LLEWELLYN - We are certainly supportive of that aspect on a regulated basis.

Mr NORTON - Going beyond my terms of reference, I would have liked to have seen a regulator in the first place. I chaired NEMMCO for eight years. We analysed a number of private entrepreneurial interconnectors during that period and none of them exist now. A major beneficiary of Basslink have been customers in Victoria and they have not paid for it. There are some changes, Bess is much better across than I am, on pricing which will see Victorians start to pay a component from July this year. It is only a small amount but certainly the Victorians have had a free kick out of Basslink. If there is another interconnector it ought to be regulated so they pay -

Mr McKIM - Hear, hear. In my opinion the Victorian customers will get a free kick out of the long-suffering Tasmanian power consumers and taxpayers who paid for Basslink -

CHAIR - Order.

Mr BALCOMBE - Part of this is understanding what would trigger a second Basslink because at the moment there is a significant excess, about 70 000 megawatts of excess capacity on the mainland. To presume we can send energy north when there is that demand supply imbalance in the north. The other thing could be a price on carbon. It could be renewables and additional incentives where we can create that opportunity. Part of what we need to understand is developing, or perhaps not getting too ahead of ourselves in dealing with the detail, but understand that a higher what might trigger the requirement then start as some of those triggers emerge.

Mr LLEWELLYN - Can you comment about gas prices because that seems to be a real trauma about to hit us and it is escalating?

Mr BALCOMBE - Yes, that is right because we are starting to see the price of gas hitting the export parity. I suppose the issue is how that impacts on Tasmanian gas consumers. My understanding is a lot of Tasmanian gas consumers, again this is probably outside my area but I have been asked to comment, are fairly well contracted. They face some risk beyond those contracting periods but I cannot comment much more.

Mr GREEN - Aurora in its past life had a lot to do with the NBN rollout. Can you advise whether TasNetworks has any role with respect to -

Mr NORTON - Yes, we are basically continuing the arrangements that were established with Aurora.

Mr GREEN - So the commitments made during the last Federal election around the roll outs, how do you see that playing out with the contracts and what is required of Aurora?

UNCORRECTED PROOF ISSUE

Mr BALCOMBE - It is still business as usual for us. We are still assisting with the aerial deployment and we are doing some design work. We are earning some revenues on it and we continue to engage with NBN Co on it. That is a good arrangement for us.

Mr NORTON - I think NBN Co, regardless, has been one of their better subcontractors around Australia.

Mr GREEN - Certainly our side have arguments about other contract providers getting in the way of the best opportunity Tasmania has to be ahead of the game around the country. Is there any room for TasNetworks to continue or enhance their input to the roll out of NBN.

Mr BALCOMBE - To some extent that depends on NBN's approach. Their model is to totally outsource everything they do. We have a facilities agreement where we hire out poles to them and the issues with those poles. We do some design work as part of the deployment and sometimes we assist with labour around their implementation. That is the limit at this stage and that fits within our capacity from a point of view of our works and service team. If we get busy we might contract out to other subcontractors.

Mr LLEWELLYN - Do you provide a regulated aspect to the separation between NBN Co.

Mr BALCOMBE - Yes, there are certain height restrictions from the point of view of separation from the high voltage/low voltage.

Mr LLEWELLYN - It seems to me they are very low on Hydro poles and often go across streets -

Mr BALCOMBE - TasNetwork poles, Mr Llewellyn.

Mr LLEWELLYN - Yes, inappropriately and in one case in St Helens it has caused a great concern to the local industry, particularly a boat builder. He wants to move his boat down through the street and into the water and all of these services have to be readjusted.

Mr NORTON - We currently have about \$4 million work in hand on NBN and we expect 100 per cent increase in construction activities between now and Q4 2015. It is ramping up as far as we are concerned.

Mr BARNETT - A two-part question for Dr Norton and the minister regarding the second cable. Just to follow through on that if I could. You referred to the merit of a second cable across the Strait, at least in some part with the ups and downs and issues with respect to capacity and the benefits of renewable energy and Tasmania being a renewable energy state. Can outline if any consideration has been given to financing such a,

Mr LLEWELLYN - It is right and proper that the Federal Government chip in.

Mr BARNETT - If I could just finish the question. There are issues like Infrastructure Australia, public-private partnerships.

Mr NORTON - I am on the board of Infrastructure Australia.

Mr BARNETT - Okay. You can certainly indicate options there. Then, secondly, could the minister clarify the Government's position regarding the second cable.

Mr NORTON - We have not done any analysis of the economics of a second cable. If that analysis was undertaken we would like to play a role in it. Because the analysis of whether it is economical has not been done, considerations of financing have not been looked at from our perspective. We do not have ownership. This is something for the Government to take the lead.

Mr GROOM - There are two things from the Government's perspective, well probably three. The first is that we believe the state of Tasmania must undertake planning now for a potential second link in the future. It would be a failure of responsibility if the state did not undertake that work. Over the course of the last five years, certainly 10 years, there has been a dramatic shift in the energy sector. It would be very fair to suggest that what the energy sector might be in 10 years or 15 years time could be significantly different again. These are long lead-in projects and it is therefore important we undertake that work.

We have also said that we believe if the circumstances justify a second link in the context of the national market, that is national infrastructure and therefore there needs to be a way that is funded without placing an unfair burden on Tasmanian power consumers. That is why I made the point that one way it could be nationally funded is by virtue of it being a regulated asset, so that we would not have the situation, which we have regrettably with the first link.

Mr LLEWELLYN - There is still an accountable component there.

Mr GROOM - Yes, that is right.

Mr NORTON - I think it is important not to get too carried away in the sense that AEMO, the national transmission planner, currently does not see an argument to support a second interconnector, but things can change and we need to be prepared for the longer term rather than just the short term.

Mr LLEWELLYN - Getting back to the nitty-gritty, the Opposition has been advised that the network control room has gone from an eight-person shift roster to five people since August, partly as a result of staff vacancies and partly due to TasNetworks merger, which is the same thing really, I suppose. With regard to the current advertised vacancy, can you confirm that the salary associated with the role is 20 per cent less than the equivalent role prior to the merger, and can you confirm that salary level is already in the lowest 20 per cent of the national percentile for that role?

Mr BALCOMBE - There are about five parts in that question, Mr Llewellyn, so I might start on the first part. The first point is that there was no reduction in network operators as part of the merger. Sadly, we had one of our operators pass away on 30 August, we had one operator move to Power and Water in Darwin on 19 September and we have a third operator who was currently off roster for personal circumstances. We advertised for the two positions in the second week of September but have been unable to fill the vacancies. We advertised externally and were unsuccessful in filling the roles.

In consultation and agreement with staff we reviewed and restructured the roster so that the remaining five operators would cover the rostered shifts. Another internal operation staff member has also moved into the control room to pick up offline duties and assist with the backup desk under supervision of one of the trained operators. This is assisting with switching and dealing with field

inquiries. We had another operations staff member available to cover shifts and allow for leave. We have also moved in one of our field staff and are training him up. Hopefully with the progress he is showing we can fast-track that training and build capability from within. In late November we agreed we would second two staff who applied for the role into training positions and due to leave and other arrangements they will start on 19 January.

With regard to your second point with respect to salary levels, one of the things we have done right across the organisation is reset the salaries in TasNetworks to the Tasmanian general market median.

Mr NORTON - As distinct from -

Mr BALCOMBE - The Australian general market or anything like that.

Mr NORTON - Or in case of the number of our award employees in excess of the Australian market median.

Mr BALCOMBE - For anyone who was subject to offer-and-accept roles, like myself, the salaries have been recalibrated to the Tasmanian market. That is creating some inequities for people who were transferred. Those eight operators were picked up and transferred into the business on their existing salaries. That was a process we inherited from a policy position, presumptions that would have been set by the previous government, and that is an equitable position. As we advertise and freshen up those roles we are going out and getting an evaluation done on the market value of those roles and are setting the market value.

Mr LLEWELLYN - But you've already told me you've advertised and haven't had any takers.

[4.30 p.m.]

Mr BALCOMBE - We didn't have any successful applicants and we didn't have any internal people apply for it, but we have now.

Mr LLEWELLYN - But isn't that a problem with national parity, if you were looking to get people from interstate into those positions and you were offering a lower position?

Mr BALCOMBE - We now have two people who have accepted to come into those roles on that transitional arrangement.

Mr LLEWELLYN - It seems to me that is a perennial problem.

Mr NORTON - It is. We are trying to reset the cost base in our business to suit the Tasmanian market - our customers' capacity to pay - and instead of paying a CEO at a national rate we struck a remuneration level which is more commensurate with Tasmanian rates. You always run the risk you may not get people from interstate moving into those positions and in a particular set of circumstances we have a highly technical position and if you cannot fill it at the Tasmanian rate you may have to look at some sort of supplement. This is a strategic issue for the business to try to reset our remuneration levels at a level more commensurate with the Tasmanian community's expectations. We are all aware of the criticisms that have been levelled at some government business enterprises, probably including Aurora, for the amounts they have paid. We are trying to reset that.

Mr McKIM - Has there been any loss of revenue or increased risk for TasNetworks from the Federal Government's decision to abolish a price on carbon?

Mr BALCOMBE - No.

Mr NORTON - If something happens on the price of carbon that impacts on one of our customers that could ultimately have an impact on us but there is certainly no direct impact on us.

Mr McKIM - Would there be any financial impact or increased risk for TasNetworks if the renewable energy target was set at less than 41 000 gigawatt hours?

Mr NORTON - I am really not in a position to answer that question.

Mr GROOM - I will hazard a contribution on that. One thing that will have an impact is the loss of a major industrial and that is why it is important we advocate for an outcome that provides exemptions for Tasmanian major industrials. I think it is a matter of great disappointment that we have not seen support, at least from the Labor Party, on that issue.

Mr GREEN - I don't have the carriage of it at a national level but of course I would be supportive of it. I'm not going to run a magic pudding-type arrangement.

Mr McKIM - Minister, given you have walked away from the 41 000 gigawatt hours, what is your policy on the RET? What do you think the target should be?

Mr GROOM - I think the most important thing is that we get a bipartisan outcome. We want the best outcome for Tasmania and critical to that is bipartisan support.

Mr McKIM - But what is that? I'm not asking for generalisations -

Mr GROOM - With respect, you live in fantasy land. We are after a practical outcome we can bank and that requires bipartisan support. I have argued the position with both Liberal and Labor.

Mr McKIM - Point of order, Chair. I have asked the minister an entirely reasonable question and he has accused me of this, that and the other. This is not about me, this is about Mr Groom and why he has walked away from his pre-election commitment to support a RET of 41 000 gigawatt hours. I asking him now what his policy position is, and I am still waiting for an answer.

CHAIR - As chair of the hearing into TasNetworks -

Mr LLEWELLYN - They're weasel words.

Mr GROOM - It is not weasel words; it is about protecting jobs.

Mr McKIM - I will just try one more time, Chair. Do you still support 41 000 gigawatt hours - yes, or no?

Mr GROOM - As I say, I support a bipartisan outcome on the RET to deliver certainty for Tasmanian jobs and Tasmanian investments.

Mr McKIM - You are crab-walking, mate.

Mr GROOM - That is what I support and I have been consistent on that.

Mr McKIM - I hope that is front page in the newspapers tomorrow because it should be.

CHAIR - I have a question to TasNetworks about the actual business. With the increase in dairy there is the need to keep vats cool and that sort of thing in an outage, and TasNetworks workers are put out there in the worst possible conditions to get our power back on so there is a conflict between getting power back on to industry that needs it as soon as possible and being aware of the safety of your workers. How are you coping with those inconsistencies?

Mr NORTON - There is a clear policy and Lance can elaborate, but our business puts the safety of our workforce ahead of getting power back to customers. We will not compromise our workforce and have them do dangerous things just to get the power back to a customer.

Mr BALCOMBE - Safety before production is the way we deal with it and we have had a very good example of that. We had storms back in July which were unprecedented, it was the third day in a row and we had 22 000 customers without power in the north and that would have clearly been a mix of customers. The winds were storm force and our teams took the view that it was dangerous to deploy people aurally so we couldn't get people up in buckets to work on poles and things like that.

One of the things we did do, however, was engage with customers to tell them how we were dealing with that because we had to deal with it safely, and as soon as conditions were made safe we were able to start deploying people aurally and dealing with those customer issues. I mentioned about our zero-harm program which is about making sure our people are accountable for their safety and the safety of their workmates. We are encouraging intervention so where people see an unsafe activity or a risk they intervene in the process and talk to their workmate about making sure the risk is dealt with and if possible removed.

We had a very interesting example when we had that total fire ban day, the earliest total fire ban at the end of August, where there was a fire with one of our major customers, Tassal. One of the things we have been doing is lifting our level of engagement with Mark Ryan in particular. I got a call from Mark, who had a problem because he had just done a large harvest of fish and he did not have any power because a fire had burnt out the powerline on the way through. We could not get teams in because there was still risk because there were still some fires on the ground so one of the things we looked to do was to see whether we could deploy a generator down to that site. As it turned out, the fire abated and our teams were able to get in and we were able to get him reconnected.

One of the things we have been talking to Mark about and other similar customers is their own standby generator arrangements so in the event that they get disconnected and have crucial needs to maintain production, they have their own standby electricity arrangements now. We are in the early days of those discussions but we can certainly help businesses like Tassal and other dairy customers with planning and working out what is best for their businesses.

Mr GREEN - Regarding the first question I asked on whether there had been advice provided to the Government on potential privatisation or equity arrangements, I accept that is important given the commitments that have been made. With respect to the Budget, though, and the question

Mr Llewellyn was asking earlier, there is no dividends to be paid this year and the expectation is an \$81 million dividend in 2015-16. Can you allow the committee to understand how that occurs? What ensures there is an \$81 million dividend to the Government in the forward Estimates?

Mr NORTON - There is no dividend from us this year but there was a dividend from Aurora.

Mr BALCOMBE - Transend and Aurora this year, and they will be paid in December.

Mr GREEN - The Aurora component is no dividend either?

Mr BALCOMBE - We have the dividend liability on our books. That was picked up by Transend.

Mr LLEWELLYN - In your forecasts you are assuming in 2014-15 a government guarantee of \$13.2 million, an income tax equivalent payment of \$83.4 million, a dividend of \$61.1 million and an equity withdrawal of \$20 million. The total returns to the Government are \$177 million which does not equate to what is in the forward Estimates. Is that because of a cash or accrual aspect?

Mr BALCOMBE - What you have to realise is that there is a mix. You pay guarantee fees in the current year and you declare dividends this year and pay them next year. There is a timing aspect to that. I am pretty comfortable that we are going to pay our forecast dividend because we are working hard to deliver the profit we have in our forecasts and estimates. Despite the fact that we have seen some revenue reductions, we are working hard on the other side of that to deal with that through reducing the cost base of the business.

Mr GREEN - Which is then passed on to consumers.

Mr BALCOMBE - It can be passed on to consumers as we reset the cost and then go through and work out our next distribution revenue determination which commences in July 2017. The work we are doing now is a reset for cost base and the customers will see that benefit through the tariff arrangements in 2017. That is for the distribution, and transmission is already in play.

Mr GREEN - We talked earlier about trainees and traineeships. Is the business proactively looking at enhancing career opportunities?

Mr BALCOMBE - One of the things we have to do is look at the demographic of our workforce. We have quite a few people who are long in the tooth and I probably put myself in that bracket, to be honest. A lot of our transmission operators are getting towards the end of their careers so we are making sure we have some appropriate transition to make sure we do not place the business at risk. We look at things such as traineeships, apprenticeships, graduate programs and we have a pretty vibrant program with respect to engineering, but we need to extend that to disciplines such as finance and economics as well.

Mr GREEN - Are you partnering with the university in that regard?

Mr BALCOMBE - We have a couple of partnerships. We have one via a national engineering association where we provide a vocational placement and funds into this association and on the back of that they provide scholarships for university placements, so it is a tripartite arrangement. That is a national scheme. We had about a dozen people participating in that program at our Maria

UNCORRECTED PROOF ISSUE

Street office about three weeks ago. We shook hands with the people who were departing the program as graduates and welcomed a few new people coming through there.

Mr GREEN - Can I put that question on notice with the number of apprentices you have this year and what you expect to take on?

Mr BALCOMBE - Yes.

[4.45 p.m.]

Mr LLEWELLYN - I notice that in your financial forecast summary that is in the TasNetworks corporate plan 2014-15 document, and in your annual report in the forecast summary, you have for 2014-15 financial returns to Government of \$177.7 million in both documents. In the 2015-16 column you have \$161.1 million return to Government and in your annual report you have got \$194.3 million. In other words, there is a extra \$30 million, in particular, that is an equity withdrawal. Can you explain anomaly between the two documents? You had an equity withdrawal in one document of \$20 million and you have an equity withdrawal in another one of \$30 million.

Mr BALCOMBE - We got advice between the time we lodged the corporate plan and when we submitted the annual report.

Mr NORTON - The \$20 million equity withdrawal is a carry-over from the previous decision - Transend's equity withdrawal of \$20 million to go to TasRail. We have got one this year and we have got one next year. So we have got \$20 million to TasRail. The Government advised us after we had put in our corporate plan that they wished to take an equity withdrawal from TasNetworks in 2015-16 - the next financial year - of \$30 million to support Forestry Tasmania.

Mr GREEN - \$30 million to Forestry Tasmania?

Mr BOOTH - \$30 million to Forestry Tas, did you say? That is next year.

Mr GROOM - There is nothing unusual about the Government taking a whole-of-portfolio position on things.

Mr GREEN - Yes, there is. It just depends on the lies you told people leading up to the election. You said they would have to stand on their own two feet and you would not subsidise them any further.

Mr GROOM - This has been a mechanism that has been used by previous governments. I just make the point that we will make absolutely sure that TasNetworks will be in a position to be able to fully deliver on the Government's agenda.

CHAIR - Order.

Mr LLEWELLYN - I wanted to continue on from the summaries. In 2016-17, the summary in this particular document - this is the corporate plan 2014-15 - is \$135.3 million. In the forecast in the annual report it is \$136.2 million, which is not all that different. But in the next year, that is 2017-18, the corporate plan had \$126.8 million forecast and in the annual report you have got \$160 million forecast return for the Government. Can you explain the \$30 million difference?

UNCORRECTED PROOF ISSUE

Mr BALCOMBE - I am just trying to refresh myself here. It is the previously announced increase in dividend rates that the Government has announced. Our dividend rate is ramping up from its current rate of 60 and it is going to be 90 by the end of the planning period.

Mr LLEWELLYN - You didn't know about that when you had your corporate plan.

Mr BALCOMBE - It is a draft corporate plan. So when we lodge our draft corporate plan at the end of May it is in draft. We finalise it as part of our dealings with the Government.

Mr LLEWELLYN - There is another \$30 million.

Mr GREEN - All the rabbiting on you have done about customers and lower energy prices -

Mr GROOM - You tried to destroy the forestry industry; that is what you tried to do.

Mr McKIM - That is outrageous.

Mr GREEN - That is an outrageous lie as well.

Mr GROOM - That is what you tried to do.

Members interjecting.

CHAIR - Order.

Mr BARNETT - My question relates to your asset management plan and plans going ahead for upgrades in the foreseeable future. Can you advise the significant upgrades that you are planning and the timing of those and any other related details?

Mr BALCOMBE - From a point of view of our upgrade, it is much more modest. There is minimal upgrade regarding our transmission network because upgrades to the system would be predicated on an increasing load forecast. The load forecasts are very flat. Most of our capital expenditure is based on renewal and replacement as opposed to any augmentation of the system. If you bear with me I will just get to the right part of the file and I can give you some details on the capital program.

Mr NORTON - While you are doing that I would like to stress that that issue of an equity transfer to Forestry Tasmania was disclosed in our annual report as a footnote under 'issued capital'. I did not realise it was going to be big news, but it is in there.

Mr GREEN - You knew that, did you?

Mr BARNETT - What date was that, Dr Norton? When did that occur - October wasn't it? It is tabled late October or November.

Mr NORTON - It was sighted by 15 August.

Mr LLEWELLYN - I do not think I received a hard copy and it is all on-line.

Mr NORTON - It is disclosed in there. I just wanted to make it clear.

Mr GREEN - You did not make any announcement about it at the time.

Mr GROOM - Well, it is disclosed in the report.

Mr GREEN - We asked specific questions in Parliament regarding where the money was coming from and we were told that they were working under a letter of comfort

Mr BARNETT - It has been public for more than a month.

Mr GROOM - It has been disclosed in the annual report. It has been public since October.

Mr BOOTH - No it has not. You have deliberately concealed it. More lies. The Government are liars; we have asked questions about this.

Mr BARNETT - That is disgraceful.

Mr GREEN - You have misled the Parliament. We asked questions in Parliament.

Mr BARNETT - It is disgraceful; it is a public report. It was tabled in Parliament. You should have been reading the reports. Dilatory.

Members interjecting.

CHAIR - Order. There is another question that has been asked.

Mr GREEN - We will have a look at the *Hansard* to see what the minister said in response to questions then, and the Premier.

Mr LLEWELLYN - He might have misled Parliament.

Mr GREEN - The Premier might have misled Parliament.

CHAIR - I am waiting for an answer to the previous question.

Mr LLEWELLYN - You probably did not know about it.

Mr GREEN - The Premier did not even know about a \$5 million subsidy -

CHAIR - Order.

Mr LLEWELLYN - The minister did not know about the document, obviously. If that is the case, he might have misled the Parliament. We do not want him to do that; we want him to fess up.

CHAIR - Order.

Mr GROOM - You should read your reports.

CHAIR - We do have a question that has been put by Mr Barnett and that has not been answered. I will allow the CEO to answer that question now.

Mr BALCOMBE - Probably our three major projects on our transmission system. We have been working on the Georgetown substation and that is an \$11 million project.

Mr BARNETT - This financial year?

Mr BALCOMBE - That is very close to completion. We have another project which is the Rosny Park zone substation at an estimated cost of \$11 million; so we have been planning for that and we are looking to complete that around May 2016. To be honest, they are the meaty parts of our program.

Mr BARNETT - Okay, it is good to hear that.

Mr BALCOMBE - We have just completed a \$27 million upgrade of the Tungatinah substation redevelopment; so that was completed in August - a very large program. That would have been pretty well incorporated into the previous revenue determination.

Mr BARNETT - Anyway, it is all on track. You are happy with the maintenance program?

Mr BALCOMBE - We are. From the point of view of our asset maturity model we are more comfortable with an understanding of where we are with our transmission network. We are working hard to bring our knowledge up to speed as to where we are in distribution and level the standard of where we are with that particular asset maturity and understanding the condition of our assets.

Mr LLEWELLYN - How was the policy that Transend had in mostly outsourcing their work fitted with the policy that Aurora had with the distribution network being mostly in-house?

Mr BALCOMBE - It has been quite complementary. Aurora did most of Transend's maintenance work and field base work. Transend would outsource the majority of its capital projects to external contractors. That remains the model at the moment and, depending on the size of the projects, we might bring some of those projects in-house. It really depends on our capability to deliver those projects.

Mr LLEWELLYN - The issue of your telemetry and switching maintenance and so on, there was a transfer of staff from Hydro to Transend sometime ago. Have you maintained those?

Mr BALCOMBE - Yes, it is a very important part of the overall operation of the entire Tasmanian electricity network. We have recently signed a contract with Hydro where we are doing some upgrades to the system to ensure that they improve their conductivity and the ability to remotely operate their power stations. That is about a \$10 million upgrade, which will be funded by increased revenues from Hydro.

Mr NORTON - The merger of the telecommunication groups in Aurora and Transend has been very good. They were cooperating beforehand but we are seeing significant benefits and synergies from bringing those two together.

Mr BOOTH - Minister, as the minister responsible for energy aren't you ashamed of yourself that your departments are taking \$30 million out of energy users and paying it to subsidise forestry operations? How could that possibly have come about?

Mr GROOM - There is nothing unusual about the Government adopting a whole of GBE portfolio perspective in relation to equity and debt arrangements. This is what the previous government did, your government, Mr Booth. There is nothing unusual about it and we have consistently said that this Government is committed to rebuilding the forest industry. I know you do not support the rebuilding of the forest industry.

Mr GREEN - I do but that is not possible.

Mr GROOM - You say you do but you were engaged in a process, through the course of the last government, which systematically undermined that industry.

Mr BOOTH - What was the process you went through before this equity transfer was made?

Mr GROOM - This Government is going to work with the industry to rebuild the industry and we have taken a whole of GBE portfolio perspective. We do this in relation to debt and equity arrangements. We are working with Hydro Tasmania, for example, in relation to their debt position. There is nothing unusual about that and we will remain absolutely committed -

Mr BOOTH - Were you asked as minister, that is the question.

Mr GROOM - There is nothing unusual about the Government taking all the portfolio. If I could finish. That is what we have done. This Government remains committed to rebuilding the forest industry. I know that is not a position you support but it is the position the Government was elected on. We remain committed to rebuilding that industry. We think it is important for jobs and investment and we are acting responsibly in relation to the GBE portfolio.

Mr BOOTH - Are you ashamed you lied before the election and you have to withdraw the subsidy?

CHAIR - Mr Booth, interjections will cease.

Mr NORTON - I do not want to enter into the discussion of the pros and cons of equity withdrawals, I want to make the point that equity withdrawal does not flow through to the charges to customers.

[5 p.m.]

Mr BOOTH - How could that possibly be the case, Mr Norton, with respect?

Mr GREEN - It was potentially a dividend, wasn't it?

Mr BOOTH - Yes, but dividends are based on profitability, are they not?

Mr GROOM - There is nothing unusual about the Government managing its GBE portfolio. That is what we are doing and we are supporting the forestry industry. We are not just supporting investment, we are supporting jobs. It was in the annual report.

Mrs RYLAH - It was.

Mr GREEN - And you knew about it, Mrs Rylah?

UNCORRECTED PROOF ISSUE

Mrs RYLAH - Yes, I did. It sounds like false indignation because you have missed the opportunity when it was announced.

Mr GREEN - We will see what the Premier and the minister had to say in the Parliament when asked very specific questions after the report had been tabled about how Forestry Tasmania is working. I was under the impression they were working under a letter of comfort.

Mr GROOM - They did have a letter of comfort.

Mr GREEN - Is this \$30 million a one-off injection or is it into the out years as well?

Mr GROOM - We have disclosed the arrangement. There is nothing unusual about it; it is completely consistent with the position that was taken by the previous government in relation to managing a GBE portfolio. It is consistent with our commitment of supporting the forestry industry. I know you have a different policy position, but we have made it very clear that we will support this industry. We believe it is important for investment and jobs and entirely consistent with that government position.

I would like to take this opportunity to thank Dan Norton, Lance Balcombe and the other representatives here from TasNetworks. I also take the opportunity to congratulate them on their commitment to prudent cost management and identifying savings, which can deliver very good outcomes for Tasmanian power consumers. I believe they have displayed a very strong commitment to that through the course of this hearing and I want to congratulate them.

The committee adjourned at 5.02 p.m.