

UNCORRECTED PROOF ISSUE

Thursday 8 December 2016 - House of Assembly - Government Businesses Scrutiny Committee - Tasmanian Networks Pty Ltd

HOUSE OF ASSEMBLY

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

Thursday 8 December 2016

MEMBERS

Mr Shelton (Chair)
Mrs Rylah (Deputy Chair)
Mr Bacon
Mr Green
Mr Jaensch
Ms Woodruff

SUBSTITUTE MEMBERS

IN ATTENDANCE

Hon. Matthew Groom MP, Minister for Energy

Ministerial Office

Mr Michael Connarty, Senior Adviser

Tasmanian Networks Pty Ltd

Mr Lance Balcombe, Chief Executive Officer

Dr Dan Norton, Chairman of the TasNetworks Board

Mr Ross Burridge, General Manager Finance & Business Services

Ms Bess Clark, General Manager Strategy and Stakeholder Relations

Mr Wayne Tucker, General Manager Strategic Asset Management

Ms Linda Manaena, Communications and Brand Leader

The committee met at 9 a.m.

CHAIR (Mr Shelton) - Welcome, everyone. Minister, would you like to make some opening comments?

Mr GROOM - From the Government's perspective, TasNetworks has again achieved a very good result for the year. We think this is a further extension of the good work done with the

integration of the distribution and transmission businesses and also the very clear focus TasNetworks has had on ensuring it has efficient outcomes in the best interests of power consumers. It is customer-focused, ensuring it is servicing its customer base and delivering good outcomes for the people of Tasmania. I note through the course of the year TasNetworks returned a profit after tax of \$98.4 million, which was approximately \$18 million above budget. In the year, total returns to shareholders was approximately \$250 million.

I acknowledge that TasNetworks, as have all our energy businesses, has had to deal with the full brunt of the natural events over the course of the year - fire, floods, storms - and as a consequence had to assist with the energy supply plan and also dealing with the need to return assets to service. TasNetworks has responded in a very timely way, ensuring it is minimising disruption while at the same time ensuring safety of the community and their people. Notwithstanding that difficult year, TasNetworks has delivered a very solid outcome for the year.

One of the other areas of focus TasNetworks has had is assisting the Government's broader objective of putting downward pressure on power prices. In that context we have seen some good outcomes with a revised revenue proposal for the distribution business, seeing revenue over the next two years dropping in the order of 20 per cent compared with current revenue expectations. This is very important downward pressure for power prices for Tasmanians, and TasNetworks needs to be acknowledged for that effort.

Over the year, reliability of the network has been very good and they have met all their transmission network KPI targets. In fact, they have exceeded those targets. They have also been very focused on engagement of customers to ensure they are servicing those customers well. We've had some very positive feedback in that regard.

TasNetworks complaints are well below target, despite a very difficult year from a weather perspective. I was extremely pleased to see the benchmarking study by the AER, which rated the performance of TasNetworks in the delivery of transmission services as the best in the country. That is a real credit to TasNetworks and all the staff and those workers associated with that outcome. TasNetworks is well placed from a financial perspective to continue this performance, with a strong balance sheet. I know they have a very strong ongoing commitment to continue the good work we have seen from them to ensure they are delivering the best possible outcome for Tasmania.

Dr NORTON - I want to make two very quick points. A prime focus, the prime focus almost, of our operation is safety. We deal with an inherently dangerous product - electricity - and the safety of our staff and customers is paramount. Safety is a particular challenge when you have storm damage as we have had this year. Safety has and will continue to remain a prime focus of our business.

The minister has outlined some of our performance achievements, but that doesn't happen without the support of our staff. We have a great bunch of people. The linies are the ones are out there during the storm - perhaps slightly after the storm because we don't want them in the storm compromising safety - the ones who reconnect our customers who have power outages due to storm events, and our office staff. We are going through a transformation program. It is not easy for staff to do that. It is a focus of our business to upskill our workforce and continue to benefit from the great camaraderie and work ethic of our people. I wanted to acknowledge that.

Mr GROOM - Hear, hear.

Mr GREEN - Minister, are you planning to scrap tariff 41 and the associated Hydro Heat tariffs? We all know that tariff provides cheaper heating and hot water. I ask the question very specifically because on 8 August 2015 you told the *Mercury* that the state Government was opposed to the removal of tariff 41. You said you had made it very clear to your energy businesses that you would not support any changes to tariffs that would see Tasmanians worse off. Can you confirm whether you still hold with that position?

Mr GROOM - We absolutely hold to the position that we don't support tariff reform that has Tasmanians worse off. You would understand, I am sure, Mr Green, there has been a lot of discussion in a national context in terms of tariffs and tariff structures to make sure they are efficient and cost-reflective. There have been some legacy issues in that regard. It is very important, obviously, that TasNetworks gives careful consideration to those issues. There are reform processes going on. Tariff structures always change over time. What is important from our perspective is that it is done in a way that does not deliver adverse outcomes for Tasmanian consumers. We have made it very clear to TasNetworks that is our expectation.

Mr GREEN - Can you break that down a little more. You say that it won't adversely affect anyone, but how can that be if you are going to change the tariff?

Mr GROOM - Because the objective of the Government and of TasNetworks is to deliver better outcomes for Tasmanian consumers. We have said consistently that we don't want adverse price outcomes. We saw this very dramatically under your government where we had really significant power price increases in the order of 65 per cent over seven years. Our performance in government stands in stark contrast to that. Power prices have come down by more than 2 per cent since we have come into Government, so we are very committed to that outcome. We recognise the importance of avoiding adverse price shocks for power consumers. We have made that very clear to TasNetworks, as we have to Aurora Energy, and that remains our position.

Mr BALCOMBE - Broadly there is the Australian Energy Regulator and AEMC, and the national energy rules have essentially mandated -

Mr GREEN - The question was not that. How did the minister make it clear to you that he was opposed to the energy businesses changing tariff 41 - as he put in the *Mercury* newspaper?

Mr BALCOMBE - We put out a consultation document about August 2015. We wanted it as part of our customer engagement process and part of our customer strategy; we want people to engage with that. One of the challenges all network businesses face in the country is that most of the tariffs are set based on consumption. How much energy you consume is reflected in your electricity bill.

Mr GREEN - Not this one.

Mr BALCOMBE - It is.

Mr GREEN - No, it is about the timing when that consumption takes place. In the context of Launceston, for example -

Mr BALCOMBE - Tariff 41 is a consumption-based tariff, Mr Green,

Mr GREEN - And timing, the time of day when energy is used.

Mr BALCOMBE - No, it is not. With respect, it is a consumption-based tariff. It is a hot water and heating-based tariff; there is no time-of-day component to it. If you have directly hard-wired air conditioning, heating or hot water, it has no relevance to time of day.

In essence we built a network that meets peak capacity. The higher the peak capacity and the higher the peak consumption, the more we have to invest in it. Peak capacity is probably utilised 2 or 3 per cent of the time. If we can lower the peak, and this is the challenge for network businesses right across the country, it means we do not have to build out the network. As we get more air conditioning and heating load and things like that coming onto the system, because people are no longer using as much wood and things like that -

Mr GREEN - People are being incentivised to do that, and that is the point; that is why I raised the issue specifically. Launceston is a good example where wood heater replacements were put in place, which then had an effect on your peak. That is the question. It was all done with our eyes open and to make a change to that is actually quite significant.

Mr BALCOMBE - If network businesses do not attack peak usage, the network component of electricity prices will continue to rise because we will have to build more and more capacity onto the system. Cost-reflective tariffs are targeting to alter customer behaviour. What we have done is to try and move the usage of -

Mr GREEN *interjecting.*

Mr BALCOMBE - I am trying to answer the question. We incentivise people, customers particularly, to use the network differently, so they think about when they might turn on their heating appliances, hot water and washing machines. They move their energy consumption away from the peak. What we are doing with our electricity tariffs is starting to transition those. It is a very long transition because we have to be conscious we do not impact on adverse outcomes for customers. It is long and very structured transition. We are working closely with the AER alongside the distribution determination we lodged in January this year. We have also lodged a tariff structure statement. An enormous amount of customer consultation work went into that tariff structure statement. The tariff structure statement was approved, bar one small element, which was to do with our business customers. There was a perspective we had not engaged those business customers sufficiently. Subsequently, we have had that discussion and engagement and those business customers are comfortable. We have resubmitted that tariff structure statement along with our revised proposal this month.

Mr GREEN - The consultation is clear because we have minutes of some of your consultation meetings. You confirmed within those consultations that you are looking to increase tariff 41. My question is around that issue. Given we provided a petition to the Government, that you have not replied to, will there be increases to power prices within tariff 41? Why haven't you responded to the petition?

Mr GROOM - Honestly, Mr Green, for you to be seeking to lecture the Tasmanian Government on power prices is beyond belief.

Mr GREEN - 450 people sign a petition and you cannot be bothered to respond.

Mr GROOM - Under your government, power prices went up 65 per cent in seven years. Under our Government they have come down by more than 2 per cent. As Mr Balcombe has pointed out, they have been part of a national discussion toward a transition to cost reflective tariffs. We made clear to the AER our expectation the transition to more cost reflective tariffs would happen over an extend time so there weren't adverse price outcomes. The AER have accepted that position and we have made that clear to TasNetworks.

Mr GREEN - When you told the *Mercury* there would be no change, you were lying; is that the fact?

CHAIR - Order, Mr Green.

Ms WOODRUFF - I will follow up on what you were saying about customer focus. The question relates to which customers you are focusing on most. It seems from tariff reforms you are implementing is on the back of what the AER asks states to consider - but there are options. We have options as to how we introduce cost reflective pricing. The tariff mix you have introduced will increase the fixed service charge relative to the consumption charge. Isn't it true this will reduce the power bills of businesses and increase power bills for Tasmanian households?

Mr BALCOMBE - That is not true. Based on the proposal we have, one of the challenges we have to talk about is averages. It is hard to talk about specific elements of the customer group. On average, the network component of electricity prices will stay the same or be lower for residential customers, and for businesses they will be lower.

Ms WOODRUFF - Businesses negotiate a package deal on power. Poor people and householders are not able to do that.

Mr BALCOMBE - No, that is not correct, some do.

Ms WOODRUFF - They are looking at a situation where they do not have an ability to control their power bill in future. TasNetworks can increase the fixed charge, on and on. Price of electricity becomes a smaller proportion in that package. People on low incomes have fewer levers to pull to bring down their power bill. There are fewer opportunities for them to save power.

Mr BALCOMBE - I am trying to understand if there is a question.

Ms WOODRUFF - You are doing this. It will disadvantage households and it will advantage businesses.

Mr BALCOMBE - That is not the intention.

Ms WOODRUFF - It is much cheaper for businesses to pay a higher fixed cost than it is for people to pay. That proportion is much less for them than it is for households.

Mr GROOM - What we are seeking to achieve is the best possible outcome for all consumers. We have had a very strong commitment to this and I think our record speaks for itself. Under the former government our prices were up 65 per cent and under us they have come down by more than 2 per cent. We remain committed to that outcome. Any suggestions that -

UNCORRECTED PROOF ISSUE

Ms WOODRUFF - We are concerned about who they are going down for and who they are going to go up for. Regarding pricing charges for 2017-19, are you still proposing to reduce charges for business customers by a greater amount than for households?

Mr BALCOMBE - In proportionate terms it might be slightly higher for business customers but it was -

Ms WOODRUFF *interjecting.*

CHAIR - Order, Ms Woodruff. You asked the question, allow it to be answered.

Mr BALCOMBE - To be very clear, an enormous cross-subsidy exists between residential and business customers at the moment. Part of our tariff structure strategy tries to unwind cross-subsidies that exist right across the network. It is very challenging. We are making sure there is balance between all of our customer groups. I will give you an indication. Based on our pricing distribution proposal, prices for the network component for residential customers in 2016-17 would be nearly \$900. In 2017-18, indicatively based on the draft proposal, it would be \$790 and for a small business customer it will fall from \$1700 to about \$1250. They are going down for all customers. If we do not start this journey of unwinding these cross-subsidies and the other elements -

Ms WOODRUFF - That is for the fixed cost, is it?

Mr BALCOMBE - That is the entire price. That is the entire price for the network component of those customers' prices.

Ms WOODRUFF - Resident household.

Mr GROOM - Network costs are coming down. This is an important part of the overall picture. We have upward pressure in wholesale costs as a consequence of national considerations -

Ms WOODRUFF *interjecting.*

CHAIR - Order. Ms Woodruff. For Hansard purposes, when the minister is answering a question I ask you not to interrupt the answer being given when you have asked a question.

Mr GROOM - It is important that people understand the broader context of this. There is upward pressure in wholesale prices nationally. What is important in the Tasmanian context is the really significant downward pressure in network costs. That is as a consequence of the decision-making of TasNetworks and its significance. In the distribution context, the revenue anticipated to be received from distribution services over the course of the next two years is anticipated to be down by as much as 20 per cent. It is a very significant downward pressure.

Ms WOODRUFF - I do not understand what happens nationally effects us in Tasmania. We are an island. We could be self-sufficient.

Mr GROOM - We are part of a national market, so unfortunately it does.

Ms WOODRUFF - Well we can choose how we roll that out.

UNCORRECTED PROOF ISSUE

Mr GROOM - We are part of the national market, so it does. It is very important people understand the good work that has been done in Tasmania to put significant downward pressure on power prices. When it comes to arrangements between businesses and households, there is a legacy issue. Under your former government there was a legacy issue. Everyone understands there needs to be fairness -

Ms WOODRUFF - More to businesses, less to households. That is really all it is. More to businesses. That is what it means.

Mr GROOM - There needs to be fairness for all consumers. Over time there will be transition to more cost-reflective tariffs but this will be done in a way that avoids adverse price outcomes.

Ms WOODRUFF - Do you believe everyone should pay the same taxes. There should be no subsidies in society. No social security net.

Mr GROOM - That is right, no-one is worse off. To be lectured by Labor and the Greens on power prices is just galling. Power prices went up under you and power prices have come down under us.

Mrs RYLAH - I am interested, minister, in getting more detail on what the Australian Energy Regulator said in September regarding the network cost. I understand you said network costs are likely to fall over the two years.

Ms CLARK - We lodged a proposal in January after consultation. As part of that we looked at our forward capital and operating needs. The proposal the minister has outlined taken together with the financing environment at the moment resulted in a significant downward pressure on our revenue requirements and also on prices.

Even without the change in the financial environment we were still forecasting a lower cost base including as a result of the merger. So costs would have fallen even if interest rates had remained at the previous level. We put in a proposal we considered met our obligations to our customers, to the community, that gave us a fair return to the owners - the state government - and reflected the consultation we had with our customers.

The Australian Energy Regulator consulted on that proposal and released a draft decision where they accepted all our forward forecasts. They said they thought we had been too ambitious in the productivity gains in our operating expenditure. We have lodged a revised proposal that has looked at our latest expenditure and puts forward a proposal that continues to see downward pressure on costs and prices as outlined.

Mr GREEN - I want to get to the point, minister, with respect to your comments to the *Mercury* newspaper when you said you made it clear the energy businesses you would not support any change to tariffs, particularly in making people worse off. We have just heard you tell the committee there will be a different tariff structure in the future.

Mr GROOM - There is nothing new in that, Mr Green.

Mr GREEN - He is talking over the top of me, Chair; I have not even finished the question.

UNCORRECTED PROOF ISSUE

We put a petition to the Parliament which you have not responded to for some reason. I am not sure why you feel you do not have to respond, but you have not responded to that petition, which was signed by 450 Tasmanians who are concerned about their power prices going up. Will you give the committee a guarantee today that tariff 41 and its associated cost structures will remain intact?

Mr GROOM - I have made it very, very clear Mr Green -

Mr GREEN - To the *Mercury* you certainly did.

Mr GROOM - I have made it very clear. I have made it clear to the energy business. I have made it very clear that the Government will not support tariff reforms that cause Tasmanians to be worse off. We will not support that.

It is very, very important tariff reform is undertaken in the best interests of power consumers. One of the key issues is to ensure tariff reform happens over time. We have made that very clear Australian Energy Regulator. We have made it very clear to the energy businesses that is the expectation of the Tasmanian Government so we do not have adverse price outcomes for people. That is what happened under your government, Mr Green, power prices went up by 65 per cent and it caused massive pain to households and businesses in Tasmania. What we said to the Tasmanian people is we will not support reforms, we will not support decisions that cause that sort of pain for Tasmanian power consumers. Our record speaks for itself. Under you they went up and under us they've come down.

Mr BACON - You won't give a guarantee about tariff 41?

Mr GROOM - The guarantee I will give you is that the Tasmanian Government will always make decisions in the best interests of power consumers.

Mr GREEN - On page 24 of TasNetworks annual report last year you talked about how important it was that the agreement between TasNetworks and Bell Bay Aluminium, with an increased load, came about. On 20 June this year, you told the Public Accounts Committee you had no indication the deal would go ahead or whether it had been pushed back as a result of the energy crisis. I have the *Hansard* in front of me mentioning the discussion between yourselves and Mr Bacon. There is no mention of the Bell Bay Aluminium arrangement in the annual report this year. Why is that?

Mr BALCOMBE - Nothing has changed.

Mr GREEN - So the load has increased?

Mr BALCOMBE - It has at the margins. There has still been increasing load since the energy supply crisis, but the load is increasing.

Mr GREEN - Is it to the 30 megawatts you talked about in the annual report?

Mr BALCOMBE - No, to my recollection the 30 megawatts was going to transition through to 2018. Part of that was because Bell Bay Aluminium had to make a \$30 million investment. We have recently completed some works on our component of the transmission network and Bell Bay

UNCORRECTED PROOF ISSUE

Aluminium has just completed some works on their electricity end to facilitate that. I don't have any perspective that that position has changed.

Mr GREEN - The minister might. Has there been any change to Bell Bay Aluminium's forecast regarding the investment Mr Balcombe just talked about?

Mr GROOM - I am not going to speak for Bell Bay; it is up to Bell Bay to answer those questions.

Mr GREEN - You made a lot of the Coordinator General negotiating the arrangement.

Mr GROOM - This was an outstanding example of customer service and it has been recognised by Bell Bay many times. TasNetworks has done everything Bell Bay asked of it to facilitate opportunity for Bell Bay and it has acknowledged it. They haven't just acknowledged it, they spoke in glowing terms about that approach. They also made some fairly negative comments about the former government in the process. From our perspective, we think TasNetworks should be congratulated for those efforts. We take the relationship with the MIs very seriously and we engage with them on a regular basis. I feel very positive about the future of major users in this State. We will continue to do everything we can as a government to ensure we get the best possible outcomes.

Mr GREEN - It's true, you did make the announcement in May 2015. You boasted the Hodgman Government had help secure the long-term future of the Bell Bay Aluminium plant - you were on the front page of *The Examiner* suggesting you had saved 1500 jobs, and your colleagues were all lined up beside you - but can you confirm now that the deal is no longer going ahead because of the load shedding issues associated with the energy crisis?

Mr GROOM - No, I can't confirm that. I am not going to speak for Bell Bay and I don't think you should verbal Bell Bay either. We did everything we said we would do. Not only that, Bell Bay has acknowledged it in glowing terms. We will continue to do everything we can to work with our major users to secure a positive outcome for the future. I am very positive about the future of these businesses in the longer term.

Mr GREEN - In the context of the questions, the minister did not answer the question. It was a quick throw-away line that he's not going to answer for Bell Bay Aluminium. I am asking him to speak on behalf of what he knows of his interface with his GBE. Mr Balcombe already indicated he knows the ramp-up in energy requirements will not go ahead unless Bell Bay Aluminium invests significantly. Does anyone in the organisation know whether that is going to go ahead?

Mr BALCOMBE - I'm happy to answer the question on behalf of the organisation. There is no knowledge whatsoever -

Mr GREEN - You have no knowledge whether the investment -

Mr BALCOMBE - No.

Mr GREEN - You've made a significant investment in transmission, but you have no knowledge as to whether you are going to be able -

Mr GROOM - No, that's not correct.

Mr BALCOMBE - Just to be clear, it was about a \$50 000 investment on our end. Bell Bay Aluminium are investing more on their end and the work is progressing; I made that pretty clear. To my understanding they have done the first stage and that continues. They had to upgrade their end, and I indicated that to the committee, and it is progressing as far as I'm concerned.

Mr GREEN - It's progressing as far as you're concerned.

Mr GROOM - The very basic point I'm making here is that from the energy business's perspective, all it can do is deliver on its commitments, which it has done. That has been acclaimed by Bell Bay as a fantastic effort. To go back to the consumer focus point as a great example of the consumer focus of this particular business, I think they should be acknowledged.

As to Bell Bay's future plans, they have to speak to that. That is not for me or Mr Balcombe; they have to speak to that. We will do everything possible with these businesses to ensure a positive outcome and I remain very optimistic about the future of major businesses in this state.

Ms WOODRUFF - Minister, you have pretty much confirmed by your omission in the answer to the question about the hot water tariff that you are going to cut that out. TasNetworks is also introducing time-of-use tariff reforms. Both of these things are going to have a very severe impact on poor Tasmanians.

Mr GROOM - I'm sorry, but this is not accurate.

Ms WOODRUFF - Minister, what studies has TasNetworks done about how these tariff changes are going to affect poor Tasmanians? I know that TasCOSS made a very strong submission on behalf of low-income households about this, so you did consult but you didn't listen. What modelling have you done, what education are you doing, and how are you going to help people deal with what is coming?

Mr GROOM - I reject Ms Woodruff's premise and assertions in the question. That is just wrong. I repeat that this Government is committed to the best possible outcomes for Tasmanian consumers. Our record speaks for itself and stands in stark contrast to the record of the former Labor-Greens government. When it comes to vulnerable Tasmanians, we remain very committed to what are recognised as amongst the most generous concession arrangements in the country. It is a very important thing. I know it is a slightly different group, but the work that Aurora has done in this is quite extraordinary. I don't know if you listened to the session we had the other day -

Ms WOODRUFF - Chair, excuse me. I'm really trying not to interject, but the minister is not answering my question at all. I asked if TasNetworks has done any education or modelling of the impacts of these changes on low-income Tasmanians.

CHAIR - Ms Woodruff, I will state my point again. You get an opportunity to ask a question and the minister then has three minutes to answer it.

Ms WOODRUFF - Or not.

CHAIR - You may not appreciate what he is telling you, but you will listen to his answer and you will have an opportunity to ask another question after that.

UNCORRECTED PROOF ISSUE

Ms WOODRUFF - Thank you, Chair, but I ask you to direct the minister to answer the question I asked him.

CHAIR - I ask you not to interject when I'm speaking - and/or anybody else.

Mr GROOM - Thank you, Chair. The member asked lots of questions and made lots of false assertions, so I will just make that point. The work Aurora is doing is very significant -

Ms WOODRUFF - I think we're in the wrong GBE.

Mr GROOM - The question goes to the impact on vulnerable customers. What I'm saying is that Aurora Energy has demonstrated a very strong commitment to the best possible outcomes for vulnerable customers, which is consistent with the expectation of the Tasmanian Government. The suggestion that we would do anything that would be contrary to the interests of vulnerable Tasmanians is a position I absolutely and categorically reject. It is just wrong.

Mr BALCOMBE - An enormous amount of work has been conducted in our business. Just to be clear, TasCOSS participates in that forum.

Ms WOODRUFF - But they were unhappy. What have you done about their huge submission?

CHAIR - Ms Woodruff, it is bad enough interjecting on the minister, but we have officers at the table who are trying to answer a question, so please do not interject.

Mr BALCOMBE - I would like to say we have a very collaborate working relationship with TasCOSS. In fact, we have had Kym Goodes come and meet with the leadership team of our business so we can look at further ways of collaborating. We all realise that tariff reform is challenging but overall we want to ensure -

Mr GREEN - You told people in your own consultations that the prices -

CHAIR - Order. Again, we have an officer answering a question. Be respectful and allow that officer to complete his answer.

Mr BALCOMBE - Our overarching objective is to keep downward pressure on the network component of electricity prices. To date we have been successful in doing that. Our tariff reform objectives are in that. We are rebalancing between tariff 31 and 41. We will see a substantial reduction in tariff 31 and some increase in tariff 41 but overall, people's electricity bills will be the same or lower. It is part of that transition.

Ms WOODRUFF - Have you done any modelling for low-income Tasmanians?

Ms CLARK - We have done that modelling, including in consultation with Aurora. The other thing is that we have launched a tariff trial in the lower midlands, from Jericho down to the Claremont area served from our Bridgewater substation. It is an area that has some demand growth and if that growth continued we will need to invest to increase the capacity of the electrical infrastructure. We are doing a trial in that area with Aurora Energy's customers where we are rolling out advanced meters in that community and starting to get real-time data.

We are working with each household that signs up and we have 300 signed up at the moment. We are aiming to get another 300 by early next year. We are working with those customers to understand what they use electricity for, when they use it, what choices and options they have, what their concession status is and all those sorts of things. We are getting a whole lot of information about their electricity use, how they use electricity and what choices they may or may not have. That is part of helping us work with all sorts of customers, including those who are vulnerable, to understand how we use tariff reform and how we use some of the tools that technology is bringing such as apps, so people can see in real time how the choices they make ultimately affect the cost of providing electricity to them.

Mr JAENSCH - Minister, in your opening statement you made reference to an Australian Energy Regulator benchmark report on network performance. Can you tell us more about how TasNetworks performed and compared with similar companies elsewhere?

Mr GROOM - Thank you very much for that. I might again hand over to Bess because she is the guru on this stuff. I acknowledge the fantastic work of Lance and Bess and all of the crew because this is a serious recognition nationally of the work TasNetworks has done in delivering good outcomes for people, in stark contrast to the baseless suggestions being made by those opposite. I have spoken to the AER directly on this. Tas Networks has emerged as the gold standard, I think, nationally when it comes to the network businesses. We have discussed already the importance of putting downward pressure through the network cost because of the significant component that they make up in terms of the overall bill and the importance that has in the context of where the national wholesale price is heading. We have to recognise that. This is excellent.

Ms CLARK - Every year, the AER does two benchmarking reports, one for all transmission businesses in Australia and one for the distribution businesses. They have been doing these reports for a number of years. All network businesses submit audited data each year that underpins these reports across a whole range of measures, our financial performance, our service performance and our vegetation management performance, energy peak demand - things like that. The AER recently released those reports and they called out TasNetworks in the media release. They noted for the second year in a row TasNetworks' transmission business had a productivity improvement of more than 8 per cent. We were already benchmarked as the best transmission performer and we have sustained and improved on that performance in transmission. In large part that reflects the savings we have made as part of the merged business.

We initially benchmarked more poorly in distribution. That, in part, reflects the characteristics of the Tasmanian distribution network, which is a poles and wires business. The AER acknowledges its benchmarking does not cope well with the Tasmanian characteristics in distribution. However, the AER has noted that last year we had a significant improvement. Even with those disadvantages, we are now considered in the middle of the pack overall in terms of price service reliability but still with that caveat that the benchmark may disadvantage us in the way the AER measures it.

The AER pointed out, in terms of our expenditure and maintenance on the network, the expenditure on the field work has not dropped at all. It is through the merger, all the overheads have reduced and it has made a significant saving and increased our productivity.

Mr JAENSCH - The minister made comments regarding customer feedback and complaints improvements. Was that tied up in the same benchmarking?

Ms CLARK - As part of it, the AER linked more to our revenue proposal. They noted we are considered the leader in the level and sincerity of customer engagement. This is in the work we have done to consult with our customers on our future plans and how we have taken into consideration that feedback. We have had strong feedback from customers, the thing they value most in how we could improve is to continue to focus on keeping prices low. That is a big part of all our forward plans.

Mr GREEN - To the chair or the CEO, has TasNetworks quantified the cost of the energy crisis to the business overall and to the bottom line? If you have, can you tell us what those cost were?

Mr BALCOMBE - We have not quantified it because it was not a great deal. There is probably some overhead time in, for want of a better term, management distraction. We set up a team headed up by Mike Paine, who is our general manager of customer engagement and network operations, to oversee the process. There were a couple of facets to that work. We had a lot of coordination with AEMO, periodic contact with them. The lion's share of the work was done with Hydro Tasmania. We recovered that cost because we provided a regulated service to connect it all up. That was at full cost recovery. From my time in overseeing things there was some management distraction. Have we measured it? No. Is it material? No.

Mr GROOM - I would describe it as focus.

Dr NORTON - We charged Hydro about \$2.77 million. We charged Hydro for the connection charges, \$2.6 million in 2015-16 and another \$170 000 in 2016-17.

Mr GREEN - That charge went onto Hydro?

Dr NORTON - Yes, that was for the connection charges. As Lance said, there were other costs in distraction of our management team to deal with it.

Mr GREEN - The minister says, focus, which is perhaps a better word.

Mr GROOM - I would put it in that category because I think it is an important point. I will acknowledge all of the efforts of TasNetworks in the context of the energy crisis issues and more broadly with the extreme weather events they have dealt with. That it has been a remarkable effort. As Mr Balcombe said to me recently, it has become part of the business to respond to things such as floods and bushfires. The way that you were involved in that and the work you did is to be commended.

Mr GREEN - You have indicated that you take notice of your minister when he speaks. He put out a very specific press release in relation to the Tamar Valley power station. He said:

The Government has today given approval for Hydro Tasmania to decommission and sell the combined-cycle gas turbine. This will allow Hydro to rid itself of a redundant liability and reduce its debt.

Can I ask whether, as a result of that press release going out, you contacted AEMO and provided instruction to them on whether that facility would be generating into the future?

Mr BALCOMBE - Me personally?

Mr GREEN - Or the business.

Mr BALCOMBE - I do not know.

Mr GROOM - I will make it clear on this. I know Mr Green likes to return to this topic whenever he runs out of questions, Chair, but we did not sell it.

Mr BACON - Go back and talk to Mathew Groom from the 12 August 2015.

Mr GREEN - On the other side of the equation I am sure you would know about, firing up the power station, can you run us through that scenario, whether you had to contact AEMO on the reverse side of the arrangement to allow them to say you would be generating again?

Mr BALCOMBE - Mr Green, we are not the generator. Let us be clear about what our role is.

Mr GREEN - Providing down the network; I apologise, you are correct, yes.

Mr BALCOMBE - Our role is to ensure safe and reliable operation of the network. If there is new generation or generation being reconnected, which is the case with the Tamar Valley power station, we most certainly would have been in contact with AEMO.

Mr GREEN - In the Public Accounts Committee, you said:

... from the customer, which is Hydro Tasmania, and no doubt you will ask about these generator sets and we have some information on that. In the lead up, we had to get Tamar Valley power station and work with AEMO and get a contingency scheme set up.

In fact you did work with AEMO to allow for the transmission.

Mr BALCOMBE - Yes, that is part of the safe and reliable operation of the network.

Mr GREEN - You cannot remember whether you had been in contact with AEMO as a result of the press release that.

Mr BALCOMBE - You are directing the question at me. I do not know the answer.

Mr GREEN - Does anybody within the business know that?

Mr TUCKER - There is a control or contingency scheme that allows the station to operate to its full capacity. The communications with AEMO are purely operational about issuing the best scheme of operating satisfactorily if it needs to.

Mr GREEN - Yes, that is reconnecting. What about the disconnection?

Ms CLARK - It is my understanding is that a power station was not operating at that time.

Mr GROOM - It was in dry lay-up. It had been put into dry lay-up under the former government, Mr Green.

Mr BACON - What actions did TasNetworks take in August 2015 when the announcement was made to seek expressions of interest for the sale? What actions did TasNetworks go through?

A WITNESS - I do not believe we took any action.

Mrs RYLAH - Point of Order, Chair. This scrutiny committee is about the financial report of TasNetworks. This is not the energy inquiry; this is TasNetworks financials for 2016. Can we please stick to that?

Dr NORTON - I do not believe we had any contact with AEMO at the time that press release went out. It was not operating at that time and there is no reason we would have had any discussion with AEMO.

Mr BACON - Was it available to operate at that time?

Mr GROOM - It was in dry lay-up. That is really a question for Hydro isn't it? It was in dry lay-up in July 2013. We would have had a small period -

Mr GREEN - Chairman, are you seriously telling me a minister puts out a press release that says it is going to be decommissioned and sold, in other words get rid of a redundant liability, and you did nothing?

Mr GROOM - We did not sell it and it was in dry lay-up.

Dr NORTON - We are an operational entity. We are interested in safe operation of the network. When the power station came back on we had interaction with the operator, Hydro and also with AEMO on whether the connection arrangements are okay. In terms of any decision the Government might make about selling or whatever, that is not a matter we would have an interaction -

Ms WOODRUFF - In the energy crisis we would have been in a better situation hypothetically if we had been able to reduce our consumption of electricity at that time. We would be in a better situation in the future if that was the case. Do you agree the amount charged per unit of electricity is an important price signal that can be used to achieve a policy objective or for an individual?

Mr BALCOMBE - That is the underpinning of cost-reflective pricing because it is all about -

Ms WOODRUFF *interjecting.*

CHAIR - Order, Ms Woodruff, please.

Mr BALCOMBE - I think you mentioned price signals and how that can affect the way people use electricity.

Ms WOODRUFF - To achieve policy objectives.

Mr BALCOMBE - Yes, to achieve policy objectives. It might be when Australia heads to a low carbon environment. The absolute premise of cost-reflective pricing is to encourage people to use electricity more efficiently. If they are using it more efficiently at different times of the day, shaving off the peak, that will have impacts on perspectives nationally about the shape of generation. It will have impacts about the way the network is built out. If that is done appropriately in a balanced fashion and over time, a shift to cost-reflective tariffs will ultimately result in lower electricity prices from the perspective of the need for peak generation and also the way the network is built. That is a long-term transition. I have to be very clear about that. I suppose all energy businesses in the country are working towards using electricity more efficiently. We are doing that through the appropriate price signals.

Ms WOODRUFF - Minister, my concern is that the increase in the fixed-charge part of the electricity bill will mean we are achieving this very neo-liberal complete focus on the business model, forgetting the impact on people on low incomes. So it has to be efficient and just. We are removing part of the policy objective lever by increasing the fixed charge and reducing the proportion of the bill low income people can manage themselves - in other words, the cost of electricity. They cannot do anything about that because TasNetworks in the future - and this is what is happening elsewhere - on the horizon we will see the fixed charge go up and up as the cost of electricity becomes negligible, as it does for water and sewerage.

Mr GROOM - We are committed to the best outcomes for people, including vulnerable Tasmanians. We are doing a lot of work on energy efficiency with vulnerable Tasmanians.

Mr BALCOMBE - This is reflected on the tariff trial, a huge learning opportunity for us. I suppose we have a great opportunity in this business. We have been able to harvest the benefits of the merger. That has given us opportunity to start on the tariff transition journey. It is a very long journey. We are very focussed on ensuring balance. We have it very clear from the minister this has to be done in an orderly fashion.

Mr GROOM - Loud and clear.

Mr BALCOMBE - Yes, it was very loud and clear. The exact point you raise is that the transition to cost-reflective tariffs does allow people to change the way they consume energy. Even from the perspective of some of the vulnerable customers, if we can shift their energy usage and energy consumption through the appropriate price signals, shift them off the peak - and what we will be able to do through this tariff trial is understand and see how they respond to energy signals - they will be incentivised as part of this trial. All the customers who participate in that will be incentivised to save money.

Ms WOODRUFF - It's impossible for them to do that in the long term with what is happening. What is the incentive to get an energy efficient appliance or to put insulation in the roof if you cannot adjust the amount of your bill because the fixed charge gets bigger and bigger?

Mr BALCOMBE - The network charge is only a bit over 50 per cent of their overall bill.

Ms CLARK - There is still an energy charge in addition to the network charge.

Ms WOODRUFF - Yes, but that will be increasing as well, as it is for water. In many states now you can use so much water; the fixed charge is so big.

Mr BALCOMBE - We're optimistic about the opportunity. I am sorry you don't share that optimism, but we are very optimistic about what this opportunity brings.

Ms WOODRUFF - Low income people are concerned about this.

Ms CLARK - We recognise that concern. We had a vulnerable customer roundtable last year and we will continue to do that. This is a long-term policy. I think one of the things often overlooked is that we are moving to a world where the network is supporting increasingly two-way power flows. We have homes and businesses who are now generators of energy and we're starting to see batteries become common in Australia. I think you are aware we are doing a battery trial down on Bruny Island - a battery trial linked to tariffs and network support. Part of that is to recognise that the service charge actually gives you access to the network. We will have some customers who will take no energy potentially from the network, but they will use the network to sell their excess energy. The connection gives them access to that vehicle to sell. In the long term, by reflecting the value of that connection we will help vulnerable customers to not cross-subsidise those who make money from selling energy.

Mr GROOM - What Lance and Bess are demonstrating is our strong commitment to getting good outcomes. There are other examples. The Tasmanian Government is also facilitating no-interest loans for energy efficiency products for vulnerable Tasmanians, also at a very heavily subsidised rate. We have been working with NILS on that. The success of that program has been quite extraordinary and it is another example.

Mr JAENSCH - Could I follow up on recent discussion about these new technologies and how TasNetworks are responding to them? I understand that a trial on Bruny Island is part of your exploration. Could you tell us a bit more about the work that is happening there?

Mr BALCOMBE - I will try to start it and those more technically oriented can complete the question. To put Bruny Island in context, it is joined to the Tasmanian mainland by two cables. Bruny Island over summer has a peak when holidaymakers move down there. Those two cables struggle to meet that demand on Bruny Island. What we have been doing in the past is supplementing that by installing a standby diesel generator, so when the peak comes up we hook in that generator. The obvious choice would be to upgrade the cables to Bruny Island. That comes at a really significant cost. The way the regulatory model works is that we spend money on the network; then it goes into our regulated asset base and prices go up for all customers.

We are trying to avoid upgrading the network by coming up with non-network solutions. Bruny Island, as an island, is a great test bed. A company called Reposit Power - a company featured on *Catalyst* about a year ago - has come up with a product that allows people who have solar and batteries to sell their energy back into the network. We are running a trial. We are doing it with the University of Tasmania, the ANU and a few others. We also sourced seed grant funding from the Australian Renewable Energy Agency. That grant funding will be used to subsidise approximately 40 homeowners on Bruny Island to install solar and battery combinations.

What will occur as part of that trial by Reposit Power is that, at times, 10 networks will source the energy stored in the batteries to shave off that peak demand and, as part of that, we will pay those customers for that opportunity. We believe there is a very good opportunity for us to understand the impact of solar and batteries more on the network. Alongside that, it's a bit like Bess said about this two-way flow. It's not so much about the network supporting the two-way flow between specific customers, it's more about us avoiding the need to upgrade the link between the

mainland and Bruny Island. Along with that, we are getting a lot of energy efficiency because it is solar, albeit we are saving on hydro generation as opposed to using solar generation, but we will use that as a test bed and then understand if there are further opportunities where we have other far-reaching parts of the network where there might be opportunity to use that rather than upgrade parts of the distribution network. It's a very good test bed.

Mr JAENSCH - In some ways is it a bit parallel to what you're doing across Tasmania in terms of resisting this exponential growth of the network and network charges and taking the peaks down?

Mr BALCOMBE - Certainly our overall objective is to maintain reliability, not grow it. That's the feedback we have had flowing from our customers. We still have to understand whether this is a more economic solution because it has elements of subsidy to it. From the point of view of trialling the technology, it's about how we can get customers to assist us to make that peak demand as opposed to connecting other forms of generation which might not be quite as economic and having to upgrade the network.

Ultimately this is all part of what the industry network is looking at right across the country. Energy Networks Australia has recently released its energy transformation roadmap which looks at issues such as this from the point of view of what the future looks like for energy networks out to 2050. It is trials such as this that will inform how the network is going to be utilised and how customers can be part of that journey in ensuring we can keep a cap on network prices.

Mrs RYLAH - Is that document available?

Mr BALCOMBE - Yes, it's on the public record. The Energy Networks Australia website is probably the best place to see it.

Mr GREEN - Was TasNetworks provided any information about the Tamar Valley Power Station prior to the press release going out to the minister to say it was going to be decommissioned and disposed of? Was there any discussion with TasNetworks at all?

Mr GROOM - Mr Green, you keep coming back to this when you run out of questions. We didn't sell it, we didn't decommission it; it continues to be available. It played a very important role through the energy security issues we faced. You keep flogging a dead horse on this.

Mr BALCOMBE - He sure is.

Mr GREEN - The minister put out a very significant press release that there was a change. It said:

The Government has today given approval for Hydro Tasmania to decommission and sell the combined-cycle gas turbine. This will allow Hydro to rid itself of a redundant liability and reduce its debt.

Mr GROOM - We've been over all this, Mr Green.

Mr BALCOMBE - This was in August?

Mr GREEN - Yes.

Mr BALCOMBE - That's when we found out about it.

Mr GREEN - So you found out about it via the press release?

Mr BALCOMBE - Yes.

Mr GROOM - We've been over this.

Mr NORTON - We did not have any discussion with the Government ahead of any decision or press release.

Mr GREEN - I was trying to be clear about whether there was any operational information from the point of view of that, which would be the normal -

Mr GROOM - I want to be very clear on this point because I know Mr Green keeps going back there but it is old news, we have heard it a thousand times. We did not sell it. The decision of the Government was to allow an EOI process subject to strict conditions and ultimately those conditions were not satisfied. We have been through this a thousand times. It does not get any fresher every time you ask it.

Mr BACON - There were comments made on the public record in the Public Accounts Committee about the reconnection of the power station in January of this year due to the energy crisis. If it was reconnected in January of this year, when was it disconnected from the network?

Mr TUCKER - To the best of my knowledge it was never disconnected from the network. It was about ensuring that it would operate satisfactorily and to its full capacity if needed.

Mr BACON - There must be a corresponding change to the change that was made in January of this year. I think the Chair said you talked to Hydro and AEMO to make that change happen. When was the corresponding change made to reduce the amount of megawatts that could be produced by the power station?

Mr GROOM - It was in dry lay-up and had been since July 2013.

Mr BALCOMBE - To put the answer into the context you are referring to in the Public Accounts Committee, essentially the Tamar Valley Power Station has nearly 300 megawatts of generation coming on there. That had been in dry lay-up so we had to reconfigure or recommence the contingency scheme for when that generation came on. That was the reference I made in the Public Accounts Committee. It was that work.

Mr TUCKER - That was only activity I am aware of. From a network perspective we had to -

Mr BACON - Reconfigure how much energy could be produced at the power station?

Mr BALCOMBE - No. When we have generation coming onto the network we have to ensure that the network can deal with when that power station trips. From my recollection, for 144 megawatts of generation we have to ensure there is some sort of contingency scheme to manage that. Tamar Valley Power Station has a base load of about 200 megawatts and there is other smaller generation above that. We had to ensure there was an appropriate contingency scheme in the event that the Tamar Valley Power Station was running and tripped so the network could cope with that.

Mr BACON - It went from a certain amount of megawatts to the increased amount in January.

Mr BALCOMBE - Well, it was zero. It had not been generating because it was in dry lay-up.

Mr BACON - When did it go to zero?

Mr BALCOMBE - When it went into dry lay-up.

Mr BACON - When was that?

Mr GROOM - In July 2013. I don't know how many times I have to say this. There was a small period in between but it essentially went into dry lay-up under your government, Mr Bacon.

Mr BACON - Is that your understanding as well?

Ms WOODRUFF - Point of order, Chair. How many questions do we get? I thought it was 2-1-1.

CHAIR - It is.

Ms WOODRUFF - There have been many more than two questions asked by others and I understand you give a bit of licence -

CHAIR - You were able to ask a series of question last time you had the opportunity, Ms Woodruff. There was a line of questioning going on and I am sure Mr Bacon would like to finalise that point with the question he was asking.

Mr TUCKER - At that time, prior to January, the power station was not operating or generating. If it was to generate at 144 megawatts that is what it would have been constrained to had we not tested and maintained the contingency scheme that allowed the station to operate at its full capacity. That is what we did.

Mr BACON - So there was no change made in August after the announcement to reduce the amount that could be produced at the power station down to 144 megawatts? It was at zero at that point and in January it went up to 144 or up to 300?

Mr TUCKER - The available generation capacity was up to 300 megawatts because we had commissioned that contingency scheme and all the arrangements were in place.

Mr BACON - It went from zero to 300 in January?

Mr TUCKER - It went to whatever the generation was at the time.

Mr BALCOMBE - If it had been turned on it would have been constrained to 144.

Mr BACON - It was not at zero was it?

Mr BALCOMBE - No, it was not operating.

Ms WOODRUFF - Minister, the fixed charge part of the bill, the change in the tariff structure, is one way of TasNetworks securing its revenue. Regardless of how much power people use, the consumption does not affect TasNetworks' bottom line. On the other side, as was discussed before, more people want energy security, more people want to generate their own power. The tariff restructure could drive more people off the grid. There are two potential futures. To be financially viable, TasNetworks could either change its tariffs to encourage more people to stay connected to the grid, or it could mandate that people get charged a fixed amount regardless of whether they are connected to the grid or not. In other words, if the poles and wires go past people's properties, they will be forced to pay even if they are off grid. Which will happen? Is TasNetworks planning to mandate to have people pay a fixed charged even if they are not on the grid?

Mr GROOM - We are not driving people off the network.

Mr BALCOMBE - You made a point that the tariff reforms are going to drive people off the grid. I beg to differ. If we do not reform tariffs people will go off the grid. I will give a specific example. If I have solar on my roof and I do not have batteries, and my colleague Ross does not have solar on his roof, the way the tariff structures work now is that on a cold winter's morning we both use the same amount of electricity. I consume the same amount of peak that Ross does. Over the course of the year my net consumption is less because I have solar panels that generate electricity into my house. I still use the same amount of a network that Ross does. We have calculated that cross subsidy between solar customers and people without solar is about \$280 a year. If that perpetuates itself, more people will realise that by installing solar they will get a subsidised use of the network and that will encourage more people to put solar on. That is probably a good thing.

The flip side is the people who sit on the network, and perhaps that might be some of those lower socioeconomic people who do not have the opportunity to make those choices, will see their network component increase because that is the formulated way the regulated revenues emerge. We have a revenue cap we operate to. We are working hard to drive that down. The perpetuation of these inherent cross subsidies could have perverse outcomes. One of those could be that we drive the more informed people, the people who have the opportunity to make those choices, off the network, which will make prices higher for those people who remain on there.

What we are trying to do, as part of this cost-reflective tariff, our overall pricing strategy and the way we are running this business to keep downward pressure on our revenues and our costs, is to remove some of the cross subsidies.

There was a second question about if a wire goes past a house and they are not connected to the network. That was an inference we are going to charge people for a wire going past their house.

Ms WOODRUFF - Will you do that?

Mr BALCOMBE - No.

Ms WOODRUFF - If they are off the grid, you will not be charging any cost?

Mr BALCOMBE - No.

Ms WOODRUFF - The clarification was, you misunderstood me. TasNetworks, as I understand it, does not do the proper costing on what people who have solar panels are not using of the network. They are not using it for distribution.

Mr BALCOMBE - Sorry, I beg to differ. I have a philosophical perspective on that.

Ms WOODRUFF - Well, I think that is the point. It is a philosophical perspective.

CHAIR - That is a statement, Ms Woodruff; do you have a question?

Ms CLARK - Two main things drive network costs. One is having a connection. So having the line that serves your property, there is the cost of that. Then there is the cost of all the poles, wires, substations, infrastructure and control schemes that make the network give you the power when you want. In particular give the power when everyone is using the network at peaks. Our cost driver is very much about the peak demand. It is not about how much energy flows, because you can have the same amount of network with quite different energy flows.

Ms WOODRUFF - I do understand the problem. I think the way you are trying to solve it by increasing the fixed charge will drive people off the network.

Ms CLARK - We are working very hard to make sure the fixed charge reflects the value you get from being connected to the network. We are also working hard, as we have mentioned, to make sure vulnerable customers are not unfairly disadvantaged.

There is a real value from being connected to the network, even if you think you would only need it as an insurance policy. Even battery sellers into Australia will say remain connected to the network because if your battery fails, if you have days in Tasmania of cloudy weather you cannot necessarily rely on that energy supply. It is more efficient to remain connected to the network and pay that fixed charge.

Mr GREEN - I am reading a document that was provided by TasNetworks to the public accounts committee in relation to the Tamar Valley Power Station. I took it off the website. It talks very specifically about -

Mr GROOM - Can we have a look at that letter.

Mr GREEN - We can table it later on. I will ask the question. It says TasNetworks also provides Tamar Valley Power Station with a generator contingency scheme as a contracted service. That is correct isn't it? It says the GCS allows the operation of the combined cycle gas turbine up to a maximum of 208 megawatts. Without the GCS in operation the station would be limited to 144 as we have just discussed due to technical requirements which are embedded within the Tasmanian frequency operational standards. The GCS service agreement between the Tamar Valley Power Station and TasNetworks expired in March 2015. At the time the Tamar Valley Power Station chose not to renew its agreement effectively. That was a change in circumstances with respect to what you need to have in place to operate the network.

Mr BALCOMBE - Sorry, to operate the network?

Mr GREEN - Yes. On 19 March 2015 TasNetworks disabled the GCS to ensure that there could be no unintended operation of the scheme, Is that correct? So there was a significant change in the parameters that you understood the Tamar Valley Power Station could operate within. Bearing in mind all of the employees and -

Mr BALCOMBE - Bearing in mind it was in dry lay-up.

Mr GROOM - This was before any decision had been made by the Government and it was in dry lay-up and put in dry lay-up.

Mr GREEN - We have not seen your letter to Treasury -

Mr GROOM - Under your government, Mr Green. I do not know how many times you have to go through this.

CHAIR - Order.

Mr GREEN - It is important in the context. I can understand why you are being so protective of this because you know you are being caught out every time you open your mouth.

Mr GROOM - You are getting very tired, Mr Green.

CHAIR - Order.

Mr GREEN - My question is will you explain to the committee exactly what it meant to your business when the Tamar Valley Power Station chose not to renew the GCS agreement ? What did it indicate to you?

Mr BALCOMBE - It was in dry lay-up.

Dr NORTON - If they wished to subsequently bring it back into operation, which is in fact what happened, then they would contact us and then we would re-establish -

Mr BACON - So if GCS was still in operation the power station could have been switched straight on in November when the decision was made? Is that correct?

Mr BALCOMBE - At 144?

Mr BACON - No, if the GCS was still in place.

Mr GROOM - Hang on, let's not conflate things here. We're talking about on the one hand a configuration exercise being done by TasNetworks. There are also issues that would need to be addressed by the generator. It was in dry lay-up, Mr Bacon, and put in dry lay-up under your government.

Dr NORTON - How long did it take to re-establish the GCS?

Mr TUCKER - Only a matter of two weeks or so. It didn't take a long time.

Mr GREEN - So that's what Mr Balcombe was referring to when he said there was a fair amount of work to be in early January to get it back when Hydro announced it was going to start operating the Tamar Valley Power Station again?

Mr GROOM - They did an excellent job and it was back up and running within four weeks of the cable going down.

Mr BACON - When the decision was made by Hydro in November, did they communicate to you in November they wanted to see that GCS re-established at that time?

Mr BALCOMBE - I don't know.

Mr TUCKER - I am not sure of the exact timing of when it was discussed or raised. All we provide is the equipment and infrastructure to allow the operation of the scheme. We don't deal with the contracts as such.

Mr GROOM - It clearly didn't impact the timing, Mr Bacon, so I'm not sure what your point is.

Mr GREEN - Before you interrupted - and to a degree quite flippantly, I put it to you - you said it was in dry lay-up. This is a change in circumstances, a very specific change when the business, given all the employees remain intact at the site, said they would not renew this agreement. Surely that meant something to your business, other than it had been in the same sort of mode for a period of time?

Mr BALCOMBE - It meant that we didn't have to reinstate the agreement.

Mr GREEN - Which would have required you to do extra work.

Dr NORTON - Subsequently, but it's not a huge amount of work.

Mr GREEN - Why would they change it, then, if it wasn't a huge amount of work?

Mr BALCOMBE - You would have to ask them, Mr Green. We have a customer that chooses to generate on the network, so it is entirely at their behest when they generate and when they don't. Our role is to ensure the safe and reliable operation of the network. When they want to go above that 144 megawatts, they have to operate under a contingency scheme and we will facilitate that.

Mr GREEN - You said it is up to them and I will have to ask them, but this is an opportunity I have to ask both you and the minister, given he put the release out.

Mr GROOM - You are all over the show with this.

Mr GREEN - Given the decision was made to end that agreement with your business - they decided not to renew it - did you recognise any change as a result of Hydro Tasmania subsequently deciding to make redundant the operators who operated the combined-cycle unit? Did that mean anything to you?

Mr BALCOMBE - No.

Mr GREEN - Nothing? It didn't mean there had been a change in status?

Mr BALCOMBE - All we would have to think about for future planning is whether that generation is in the network or not. The generator is still there in situ and it is up to the owner of that generator whether they choose to operate it.

Mr GREEN - So the answer you gave about this agreement being ceased because the plant was just in dry lay-up and that was the reason for it - do you hold to that?

Mr BALCOMBE - It's their choice so I am presuming that was why.

Mr GREEN - And there was no interaction between yourself and Hydro about this?

Mr BALCOMBE - Operationally, from a perspective of, 'The date has arrived, do you want to renew it?', and they said no. I wasn't involved in that discussion, that is an operational discussion.

Mrs RYLAH - Minister, I want a broader picture of the role TasNetworks played in the implementation of the Energy Supply Plan. We are hearing part of it but it seems to me the Opposition doesn't understand how TasNetworks works and its role in the Energy Supply Plan as opposed to the generators, so could you outline TasNetworks' role, please?

Mr GROOM - I think they played a very important role. I have already acknowledged the extraordinary efforts they put in. They had very strong collaboration right across government, also with AEMO, Hydro Tasmania and other officers and consultants in helping to facilitate in a very short time frame the installation of the temporary generation. As you will appreciate, Mrs Rylah, that was a very important contingency to ensure we were in a position to be able to responsibly manage the energy security issues we were facing at that time. We were very focused on ensuring that we kept the lights on, protected jobs and the economy and kept power prices as low as possible, so that supply plan was very important. They did extraordinary work, as Dan has pointed out, including in some instances on the front line in very difficult physical conditions.

Mr BALCOMBE - One of the things we had to ensure was that the conversation I had with our team was making sure that TasNetworks wasn't on a critical path. As you know, Hydro was very much focused on connecting diesel generation to our network. Part of that was ensuring we were providing Hydro Tasmania with locations where it was technically feasible to connect that supplementary generation. Alongside that, we knew some of these sites might have been more challenging from the point of view of noise and emissions, so we made sure that should a site be crossed off the list because of technical or environmental issues we had some further sites down the list to replace it. That worked very well.

The other thing is that we worked very collaboratively, albeit we were in a position where as a regulated business we were able to recover those costs. As part of that site identification there was a working group, as I indicated, headed up by Mike Paine. Wayne and his team were intimately involved in it because from an asset strategy perspective we had to make sure that everything was done safely. Our people were involved. I know over Easter we had people over the west coast in fairly arduous conditions, very wet and challenging. A lot of people gave up their Easter to make sure we could assist Hydro getting that connected. It was a great piece of work by our people and a great collaborative effort between ourselves and Hydro.

Mrs RYLAH - Lance, every time a new diesel generation site came on, did you have to modify the network to allow for that frequency?

Mr BALCOMBE - No, it was not so much modification. We had to ensure that it wouldn't create frequency issues on the network.

Mrs RYLAH - Sorry, wrong word - similar to Tamar Valley coming on?

Mr BALCOMBE - Not quite to that scale. I suppose we wanted to make sure that these small diesel generators weren't creating fault conditions on the network and things like that.

Mr GREEN - Just one last question in respect to the generator contingency -

Ms WOODRUFF - Excuse me, Chair.

CHAIR - We will get around the rotation; I've given the call to Mr Green.

Ms WOODRUFF - Point of order, Chair, I was next in the queue and I had your eye and you said you would give it to Mrs Rylah first.

CHAIR - You were objecting about Mrs Rylah having another question.

Ms WOODRUFF - I was seeking your clarification that it was -

CHAIR - I manage the rotation and at this point in time it is now back to Labor.

Mr GREEN - With respect to the generator contingency scheme, in the correspondence, which is obviously an operational document that points out what happened operationally and talks about Chapel Street and various other things, it also talks about how in December 2015 the Tamar Valley Power Station approached TasNetworks to reinstate the agreement, the generator contingency scheme. Can you be specific as to exactly what date in December Hydro Tasmania approached you in that regard?

Mr BALCOMBE - I can't, but I can find out for you.

Mr GREEN - Can we put that on notice so that we understand exactly what date in December that was done? It is important in the language being used around what the power station was doing up until November. What happened in the meantime and not so much about what Mr Groom is suggesting was dry lay-up. It is that the power station was not used in the middle of a drought and this is our point. We are not having a go at TasNetworks, we are trying to understand exactly what the situation is.

Mr NORTON - We can tell you when Hydro was approached; we would have it in our records.

Mr GREEN - A year ago. I am moving off the Tamar Valley Power Station.

Mr GROOM - Until the next time.

Mr GREEN - You cannot out a press release like that and expect people to believe you never intended to sell it.

About a year ago it was reported TasNetworks was in the process of installing a new SAP - systems applications and products - IT system. At the time, you, chairman, told *The Examiner* the project would cost about \$58 million and it would run on time and on budget. How many bids were quoted and received for the project and were they all SAP? Was the bid tenderer secured in a way only a SAP bid could win the contract?

Mr BURRIDGE - There was a short-list of three tenders, we received a number of expressions of interest from varying vendors. It is important in the way we approached this was not to tender for a software system, we tendered for a system integrator. A system integrator is someone that comes in, brings some software with them and builds that software to the specifications of the business.

We tendered for a system integrator, the three we short-listed were all SAP. We had some non-complying bids for other tier 1 software products, and some other non-complying tenders for non-tier 1 software, with a rigorous evaluation process. We moved through those three tenderers, culled one and came down to the final two. Clearly to maintain competitive tension in that process, and we awarded the contract to UXC Oxygen who had recommended SAP.

Mr GREEN - Can you allow the committee to understand whether the project is still on time and on budget?

Mr BURRIDGE - It is on budget, at \$58.2 million. It is in two releases, release one being financials and capital management, payroll et cetera. I was due to go live on 5 December. There was an issue in building the payroll system, which was delayed a month and would have seen us move our go live date to early January. I will come back to the financial piece in a minute.

Our contractual arrangements with UXC allow us some flexibility in that date, while UXC said we can go live on 3 January, we rejected it. As you can all appreciate, 3 January is a difficult time to go live. It would have put pressure on our project team to work over the Christmas break and they have already been working hard, and long hours. Our business would be heavily reliant on holiday leave at that point, so in negotiation with the system integrator we moved it to 1 February. We will be going live over the Australia Day long weekend in late January and February. Yes, there were some extra costs in this but we were able to recover those from a contractor.

Mr BURRIDGE - In the scheme of things it is a relatively minor delay.

Mr GREEN - What sort of savings do you expect the system to make?

Mr BURRIDGE - Our business case is based on about \$33 million worth of savings. A positive NPV - net present value - of \$33 million.

Ms WOODRUFF - Minister, can you confirm how many eagle and goshawk deaths have occurred through electrocution or power line collision? Could you tell me what steps TasNetworks has taken over the last year to prevent raptor deaths on its infrastructure?

Mr GROOM - I can reaffirm TasNetworks' commitment to ensuring they do all they reasonably can to minimise impact on the environment, including wedge-tailed eagles. They take the issue seriously. They have implemented a range of steps to improve their reporting and mitigation of the impacts. They can then look at ways to improve outcomes in this regard.

Mr BALCOMBE - Last year we had 11 wedge-tailed eagle deaths. They are the ones that we know about, there may be more. Prior to that in 2014-15 we had seven wedge-tailed eagle deaths, one white-bellied sea eagle, and two grey goshawks. There are a couple of layers to this. One of the things we have been doing is encouraging people, where they see a vulnerable species that may have been electrocuted, to report it to us. If we start to see trends on certain parts of the network where there are injuries or, at worst, fatalities we can start to look at remediating parts of those

networks. There are steps we can take. We put a little apparatus on distribution feeders to make those feeders more visible. There are things we can do with cross arms to protect the sea eagles or eagles might roost. We will continue to invest in the network, and that is probably around a couple of hundred thousand dollars a year on that.

Ms WOODRUFF - Have you budgeted for that?

Mr BALCOMBE - Yes, a couple of hundred thousand dollars a year.

Ms WOODRUFF - In this year?

Mr BALCOMBE - That is right. That budget may change but we have to see the data on the network and where these collisions are occurring, so we can then work on remediation. The offset to that is we have been working with Trowunna Wildlife Park and the Bonorong Wildlife Park in the south. We have assisted them in building rehabilitation facilities. That might not necessarily be with regard to the species injured on our network, but if they find other injured birds they will be rehabilitated through that facility. That, to some extent, is not perfect but we work to offset that and work with those facilities. Alongside that, we are trying to build knowledge and awareness amongst the community. We have taken initiatives and are starting to work with vets. If they see injured species they report it as well. All of these elements fit into what we call our threatened species strategy. It is a challenging issue.

Ms WOODRUFF - Is that published?

Mr BALCOMBE - I do not know if it is published. We can make it available.

Ms WOODRUFF - Because the Raptor Refuge has been trying to work at it. They have a simple solution, putting devices on poles and they say that is all that would be required to prevent this happening. Plastic devices on the top of poles.

Mr BALCOMBE - That might be one facet of it, yes.

Ms WOODRUFF - They say that they have had problem working with TasNetworks and that there has been some -

Mr BALCOMBE - I am not aware of that. We are working collaboratively with Trowunna and Bonorong.

Ms WOODRUFF - Minister, you have refused to meet environment groups since you have been minister for Environment.

Mr GROOM - That is not true.

Ms WOODRUFF - I understand from some environment groups you have refused to meet with them.

Mr GROOM - That is not true. I want to again commend the commitment from TasNetworks on this. We all recognise this is a problem. It is a problem that exists around the world. They have in place a specific strategy. One of the things that they have committed to is working to raise awareness on the issue. In that context I would want to know, and I encourage Lance to find out,

if there are any practical suggestions or ideas to make sure we are being engaged with people who have those ideas because we have a collective responsibility and desire to get a good outcome.

Ms WOODRUFF - Minister, there are ideas and solutions and they are being proposed.

Mr BALCOMBE - We have analysed incidents over the past 15 years and two-thirds of those electrocutions have been due to mid-span collisions. So far this financial year we have installed bird-flight diverters, which are flappers, over 70 spans of those high-risk conductors in the north-east and the Midlands. I understand what you are saying about poles but the bigger issue appears to be on the spans. We can continue to work on both of those.

The other part is, when we are thinking about designing new parts in the network, we have to think about threatened birds as part of that overall design process.

Ms WOODRUFF - Severe underreporting is the issue, isn't it?

Mr GROOM - Yes, which is the point they have emphasised - to raise the awareness.

Ms WOODRUFF - There needs to be a comprehensive VET education campaign.

Mr NORTON - That is what we are trying to do, get better.

Ms CLARK - The Bonorong program is supporting a VET education program. That is part of our partnerships in that regard.

Ms WOODRUFF - Great.

Mr JAENSCH - In the opening comments the chairman made reference to the priority placed on safety for customers, public and the workforce within TasNetworks. Can we hear more about some of the public safety initiatives?

Mr BALCOMBE - The key plank of our strategy is the public safety of our workers, our staff, our people and the public. There are a number of facets to public safety. We are going into a bushfire season so part of the work we have been doing is a public safety campaign on vegetation management. We work alongside authorities such as the TFS and councils to make people aware of their responsibilities in regard to safety, to ensure they are managing vegetation around the service wire that comes into their property.

The other areas are to educate on the dangers of electrical safety. We run a safety in schools program. Each year we put about 10 000 mainly primary school children through that program. The program educates children on electrical safety. Simple messages such as electricity and water, broken wires, dodgy power points and things like that. Recently we had a fantastic example where a young child had been to a safety in schools program and they arrived home and their mother had been complaining about tingly taps. That child encouraged her mother to ring our fault line, 132 004, and as a result of that we ended up having to do a little bit of work on the network to remediate that issue.

Mr GROOM - That is a fantastic story.

Mr BALCOMBE - It is a really good story because the child had listened and we saw a great safety outcome.

Mr GROOM - I hope they have been acknowledged for that.

Mr BALCOMBE - They have been.

Mr BACON - You said before, minister, the expected saving from the SAP program was around \$33 million. Can you expand on what areas those savings will come from and how long it will take and if there is an expected reduction in FTEs as part of those savings?

Mr BALCOMBE - To put this into context, when we inherited the legacy systems at Transend and Aurora, those businesses had not invested in those systems for some time because they knew the merger was coming. The systems were end of life and they were heavily customised. We inherited two finance systems, two payroll and HR systems, three asset management systems and two risk systems. There was no 'do-nothing' approach because those systems were unsupportable. We had to put in a new IT system. Because of the disparate nature of those systems and where they were in their life our business processes are not as efficient as they could be. For example, it takes us about 10 days to get an end-of-month set of financial statements out. By the time you get it, it's pretty well history. We don't have access to live data. That is probably where we are going to see the most efficiency delivered out of the business, where we are going to be doing a lot of work on what we call the 'data migration' into the new system. Data will become one of our greatest assets with this new system, particularly with things such as asset management data. Once we have done the second drop we will be looking at mobility as part of that. To give you an example of that, a work team will get their program of work on, say, an electronic tablet or some sort of Toughbook. That will tell them where to go for the day. They will tick off the job and complete the work and that will integrate into the asset management system. All that will be automated. At the moment there is often double or triple handling of that information. Things such as time sheeting will become very simple and we will derive lots of efficiencies out of that. Will it lead to efficiencies and reduction in jobs? It could, but we haven't identified those opportunities yet. It is most likely there will be some job reductions over time. I suppose that's the pay-off for greater efficiencies. Where we see some of those clunky manual tasks become automated as part of that process, there could be job losses as a result.

Mr BACON - Is there a time frame for the end of that project?

Mr BALCOMBE - The project will be completed by about October next year and that's when we will start to harvest the efficiencies.

Mr BURRIDGE - Finer procurement, better purchasing arrangements, preferred suppliers, will give us a big advantage as well. Also licence fees on software. We are now paying one licence fee not multiple licence fees. We have realised some of this already this year with the IT group saving \$1.6 million.

Mr BACON - Can you explain the role of Mr Cameron Morris in this project?

Mr BALCOMBE - Cameron Morris had two roles. He advised the project team when the business case was being developed and he is now an adviser to the steering committee.

UNCORRECTED PROOF ISSUE

Mr BACON - Is there any evidence Mr Morris personally benefited from TasNetworks investing in this system other than through those two roles you just mentioned.

Mr BALCOMBE - None whatsoever.

Mr BACON - Does one of those roles involve the company Sandstone Services that received \$180 000? Is that one of those two roles?

Mr BALCOMBE - That's his company.

Mr BACON - So he is paid the \$180 140 through that company. Did it ever occur that it might be unwise to have an investment of at least \$58 million in your business linked with a consultant who has a record for providing false information and was once banned for five years?

Mr BALCOMBE - We are aware of that. When we became aware of that we got some probity and legal advice. We talked to Mr Morris about it. That was some time ago when he was involved with a professional services firm and he then left that firm. It was in respect of him signing off on a set of financial statements that were subsequently found to be incorrect. Following that investigation there was nothing to indicate we shouldn't take on Mr Morris' services. We also advised the board of that.

Mr BACON - Did you become aware before Mr Morris was engaged or after he was engaged? Where in the process did you become aware of it?

Mr BALCOMBE - I think it was subsequent to his engagement.

Mr BURRIDGE - That's true.

Mr BACON - So he didn't make you aware? There was no requirement for him to make you aware of something like that through the process?

Mr BALCOMBE - No, that was a process issue on our part, not his.

Ms WOODRUFF - Minister, how many meter reading faults have caused solar panel owners to be charged for using the energy they generate? Under the previous government there was a network meter reading fault which was erroneously charging people who generate solar electricity to heat their homes and hot water. It has been over three years now. The previous government promised to look into it and fix it. Your Government committed to doing that but now you have backed down from fixing it. It is possible to be fixed. TasNetworks is the network operator that provides the meters so they are responsible for issuing the charges and we are looking at whether there has been a breach of the Australian Consumer Protection Law. Have you told existing and prospective solar owners they are being charged to use the energy they generate to heat their homes and hot water?

Mr BALCOMBE - Pardon me, I am trying to understand what you mean by 'meter reading fault'.

Ms CLARK - I think that is a misnomer.

Ms WOODRUFF - That is the first time I have heard it is a misnomer.

Ms CLARK - There are two issues that may be being confused here. We did have an issue with some solar meters. There is a discrete set of meters that have two tariffs, 41 and 31, which is the hot water and heating tariff and then light and power. If you have 41 you have to have 31. You don't get 41 without 31; they are a bundled tariff. When some customers had also a solar tariff linked to that we had an issue where the meter was not correctly reading that solar register. We discovered that early in TasNetworks, notified all affected customers, undertook a rectification process and credited all customers for the amounts that had been overcharged. We managed that fault through, it has been addressed and, in fact, we received very positive feedback from our customers with the way we managed the rectification process.

I think the issue you are alluding to is about the fact that those meters were never designed to fully offset all solar. As we have these two tariffs, you can only offset one; you can't offset both under that two-tariff arrangement. There was an undertaking to look at that. We looked at that and found there is a different meter where you can fully offset all your solar energy. That meter is available to all solar customers. We looked at the cost of creating a new meter but it was very expensive. It was going to be expensive to test, trial and implement. Given there is an alternative product on the market that is already in operation, we issued advice that should customers wish to offset all their solar they should use the existing meter.

Ms WOODRUFF - At TasNetworks' expense? So there is no cost now? You have contacted all the solar owners and advised them of the problem?

Mr BALCOMBE - That is the first issue, yes.

Ms CLARK - That is the first issue, which has been rectified. All solar customers are now charged according to the tariff they have selected.

Ms WOODRUFF - So if they're generating electricity they're not being charged at any point for heating and hot water?

Ms CLARK - They can choose a tariff that offsets all their energy use and there is a meter that does that, or they can choose to have 31 and the very discounted 41 and not get an offset against both tariffs. It is up to each customer to work out which solution is better for them and, in effect, which subsidy they choose under that. There is a product on offer and all customers can work with their retailer and choose the product that serves them best. We have certainly worked with Jack Gilding and provided advice to him and his membership about the options.

Mr GREEN - I know from the point of view of distribution this does not completely fall into the remit of TasNetworks, but I would like to ask you the question, minister, particularly in relation to the Cable PI, which could have an effect on the distribution network if unsafe devices are installed in homes. We know a number have melted and caused quite a bit of concern. We tried via RTI to understand exactly what was happening and we did that on 30 May 2014. At that time you told the *Sunday Tasmanian* that there had been a recall that was well underway. Can you update us as to exactly where that is at now in terms of the number of devices that are still out there that are potentially unsafe?

Mr GROOM - I am not going to vouch for the accuracy of your representation, but we are very aware of this very important issue. We are talking about a faulty batch that occurred in 2013 and the Government has made it very clear to TasNetworks that it is our expectation that they fully

UNCORRECTED PROOF ISSUE

comply with all of the requirements, including those laid down by the ACCC, to make sure that people's safety is properly protected. All the advice I have had from TasNetworks is that they have absolutely done that.

Mr BALCOMBE - It sounds a simple process to run a recall, but it is actually quite complicated because we have to go through a number of approvals and testing to do that. We had to get the ACCC to sign off -

Mr GREEN - It is two and a half years, though.

Mr BALCOMBE - That's how long it took. When we first became available was probably about the time we transitioned. We had to identify the size of the problem so we did our own testing. Once we engaged with the ACCC, and the manufacturer from that perspective, they insisted we go through another set of testing in regard to that. To outline the problem, there was an issue with a batch of Cable PI devices that were manufactured in 2013. The problem is what we call 'infant mortality' - if they were going to fail, generally they failed very early in life. At that stage Cable PI devices were being handed out at trade shows and out of the back of trucks. I presume Aurora was trying to encourage the uptake of these things because they have implications as a great safety device. That meant there wasn't a great deal of records as to where these Cable PI devices were located, so we ran a public safety recall through the press and also put it up on our website. As of July, when the recall finished, we have accounted for about 20 000 of the 26 000 devices that were distributed. That recall in its formal presence has finished, so the ACCC has signed off on that. We have also dealt with the Electricity Regulator and he is very comfortable with the outcome of that recall.

Mr GREEN - So there are 6000 still out there.

Mr BALCOMBE - There could be. They could be in garbage bins or they could still be in operation. We continue to maintain a presence on our website about it and ask people to inspect their devices. If they locate a 2013 device we ask them to unplug it, dispose of it, let us know they have disposed of it, and we will send them out a fresh device.

CHAIR - The time for deliberation has concluded.

Mr GROOM - I thank all the crew for their hard work, all the workers at TasNetworks and all my office staff who have been involved.

The committee suspended at 11.05 a.m.